

Double act
Opening up
at Michelin

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Browser battle
Netscape v
Microsoft

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Fool's gold
Sharp salesmen,
greedy public

Book review, Page 12



Karnataka
From farming
to microchips

Survey, Page 23-25

World Business Newspaper

THURSDAY OCTOBER 5 1995

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German court rules Leeson should be sent to Singapore

Futures trader Nick Leeson should be extradited to Singapore for trial over the \$960m (\$1.3bn) collapse of Barings Bank, the Frankfurt regional court ruled. The decision is only the first in a series of steps required under German law before extradition can go ahead. Leeson's lawyers said they would appeal to the German Constitutional Court. Page 9

'Gas attack confession' by cult chief
Shoko Asahara (left), has started to admit he was involved in a nerve gas attack on the Tokyo subway that caused 12 deaths and left 5,500 injured last March, according to NHK public television. Asahara, head of the Aum Shinrikyo cult, faces trial this month on charges of murder in connection with the attack. His lawyer was quoted by NHK as saying his client was forced to confess. Page 4

Apec customs checks: Members of the Asia-Pacific Economic Co-operation forum, embracing 40 per cent of world trade, have agreed in principle to adopt common customs checks by 2000. Page 14

Italy sued over mobile phones: The European Commission started legal proceedings against Italy for failing to allow competition in domestic mobile telephone services. Omnitel Pronto Italia, an international consortium, is alleged to have suffered discrimination. Page 14; NTT in mobile phone venture. Page 15

Rhone-Poulenc Rorer, Franco-US drugs group, was last night poised to raise its \$1.7bn (\$2.6bn) hostile bid for Fisons as the UK pharmaceuticals group made its final plea to shareholders. Page 15

Seat, Volkswagen's loss-making Spanish subsidiary, will cut capacity by 30 per cent in return for European Commission approval of a Pta46bn (\$365m) state aid package. Page 2

US-EU trade dialogue: Leading businessmen and government officials from the US and the European Union will discuss bilateral trade and commercial relations in Seville next month. Page 4

China to boost deprived areas: China is encouraging a concerted effort to redirect resources to poorer areas to counter possible social unrest. Page 4

US may step up support for Bosnian army: The US may intensify efforts to bolster the Bosnian army if it cannot persuade all warring sides in the republic to reduce their armed forces, US defence secretary William Perry said. Page 2

Comoros coup over: French troops intervened to end the coup in the Comoro Islands. Mercenary Bob Denard surrendered his hostage, President Said Mohamed Djohar, unharmed. Page 4

UK business gloom: Companies in the West Midlands, one of the most important UK manufacturing areas, warned that business conditions were gloomier than at any time in the past two years. Page 8

GT Chile Growth Fund accused Regent Kingpin, the investment management company trying to take control of the fund, of making inaccurate statements to investors and has complained to financial regulator Imro. Page 15

Escom founder expands: Manfred Schmitt, founder of Escom, one of Europe's largest personal computer production and distribution companies, bought Hagen, loss-making German telephone manufacturer. Page 15

Buy-out favoured for Tarmac: Private equity investor Schroder Ventures is supporting a management buy-out regarded as the front-runner to purchase the UK housing operations of UK builder Tarmac. Page 21

UK budget tax cuts: The International Monetary Fund warned the UK chancellor of the exchequer not to cut taxes in November's national budget unless public spending plans were curbed. Page 8

Credit Mutuel, France's fifth-largest banking institution, reported total deposits up 8.5 per cent to FF475.6bn (\$96.9bn) during the first eight months of the year. Page 16

Wheat harvest: Bad weather and lower investment in the agricultural sector have produced Russia's worst harvest in 30 years. Page 22

STOCK MARKET INDICES			
New York: S&P 500	4,734.53	(-15.17)	
NASDAQ Composite	1,002.50	(-17.99)	
Europe and Far East			
FTSE 100	2,217.76	(-12.74)	
Nikkei	16,145.08	(-2.09)	
US LUNCHTIME RATES			
3-mth Treasury Bill	5.31%		
3-mth Treasury Note	5.40%		
Long Bond	5.40%		
OTHER RATES			
3-mo Interbank	6.75%	(103.1)	
10 y US Gov	7.12%	(102.12)	
10 y US Gov	7.12%	(102.12)	
10 y US Gov	7.12%	(102.12)	
NORTH SEA OIL (Argus)			
Brent 15-day (Nov)	\$16.02	(16.21)	

US, Europe warned on tax cuts

By Robert Chote in Washington

The International Monetary Fund yesterday stepped into the debate over tax cuts in the US and Europe by warning that "fiscal backsliding" could undermine economic growth and unsettle financial markets.

In its latest World Economic Outlook, the IMF yesterday also urged Japanese authorities to close or restructure more insolvent financial institutions, and suggested that a further reduction in US interest rates is not "warranted".

The warning on fiscal policy was prompted by debate over tax cuts in the US, Germany and the UK. Mr Michael Mussa, the IMF's economic counsellor, said financial markets were expecting significant progress in cutting the US budget deficit.

"If these expectations were to be disappointed, then we might see an adverse reaction in bond and stock markets. There would

IMF urges against 'fiscal backsliding' as Japan told to restructure insolvent groups

be little monetary policy could do to offset it," he said. The fund warned that if governments eased fiscal and monetary policy too much in response to signs of a slowdown "the benefits would be fleeting and the costs high".

The IMF said interest rate moves and intervention by the world's leading central banks had helped bring the main exchange rates closer into line with economic fundamentals. Exchange rate policy will be discussed by finance ministers from the Group of Seven leading industrial countries when they meet in Washington on Saturday.

Mr Mussa said the yen had clearly been overvalued in mid-1995 and that it remained "quite a strong exchange rate now". He

IMF says world resilient to market turmoilPage 7
Warning against 'backsliding' with tax cutsPage 8

added that the dollar still looked a little undervalued and that a weaker D-Mark would be good for Germany and the rest of Europe. The IMF report argued that "co-ordinated actions to affect exchange rates can be effective against serious misalignment when economic and policy developments are supportive and the timing carefully chosen".

IMF economists have cut their forecasts of growth for most of the world's leading industrial

countries since April, although they argue that this reflects a "mid-cycle pause" rather than a prelude to recession. Output in the G7 - the US, Japan, Germany, France, the UK, Italy and Canada - is expected to rise by 2.4 per cent this year and 2.3 per cent in 1996, compared with April's predictions of 3 and 2.6 per cent respectively.

The IMF, which urged the Japanese government to take tougher action on financial institutions crippled by bad loans, predicted that the Japanese economy would grow by just 0.5 per cent this year. The latest forecast was completed before last month's ¥14,220bn (\$136bn) stimulus package, which the fund believes has improved the pros-

pects for recovery. The forecasts were accompanied by characteristic calls for tough action on government borrowing and caution on interest rates. The fund warned that financial markets were becoming more sensitive to the weaknesses of government policies and failures to address underlying economic imbalances.

The IMF welcomed the recognition by both the Clinton administration and US Congress that deficit reduction was essential to secure higher living standards. But it added that the significant tax cuts proposed in their packages should be delayed until substantial progress towards a balanced budget had been achieved.

Economic growth has slowed more sharply in the US than the IMF had expected at the time of its last forecast in April, but the organisation predicted that the fall in long-term interest rates since early this year was likely to boost the pace of expansion in the future.

Banking reforms re-emerge at top of US agenda

By George Graham in Washington

A drive to liberalise US banking laws, which almost collapsed this summer, has been pushed back to the top of the political agenda and could come to a vote in the House of Representatives in the next two weeks.

Congressional leaders were yesterday working on the details of a bill they hope will satisfy all sides of the financial services industry and win approval for its central element - the repeal of the 1933 Glass-Steagall Act which bans commercial banks from selling or underwriting securities.

The Senate has already approved a more limited package of reforms, but has delayed tackling Glass-Steagall until the House resolved its differences.

The battle over reform had pitted the interests of the commercial banks against the investment banks, which dominate the securities markets. Also, insurance agents, although they had no direct stake in this struggle, were determined to block any action unless they got more protection from banks' encroachment on their own turf.

Expectations were rising this week that a new version of the bill that accounts for these interests can be framed. For the investment banking industry, overseen by his commerce committee, congressman Thomas Bliley of Virginia is close to winning agreement on a measure requiring commercial banks to put their securities activities into a separate subsidiary.

For the insurance agents, congressman Gerald Solomon, chairman of the rules committee, has secured a five-year moratorium to prevent the comptroller of currency from allowing the banks under his supervision to expand their insurance sales any further. To stop these measures from sticking in the throat of the commercial banks, congressman Jim Leach, chairman of the banking committee, has thrown in a dose of relief from regulatory burdens imposed by existing consumer protection laws.

The deal, however, is not liked by the Clinton administration. "No one would shed a tear to see the whole bill die," said Mr Jerry Hawke, undersecretary for domestic finance at the Treasury. "If the price of more regulatory relief is restrictions on national bank insurance activities, bankers should think long and hard before closing that deal," said Mr Eugene Ludwig, the comptroller, whose office is an arm of the Treasury and regulates many nationally chartered banks.

The American Bankers Association will not make its position clear until it sees the full details.



Former Russian vice-president Alexander Rutskoi pays tribute to those killed in clashes with pro-Yeltsin troops during the October 1993 uprising in Moscow. A total of 123 people were killed in the rebellion, according to the latest official figure

Apple finance chief quits over strategy

By Louise Kehoe in San Francisco

Apple Computer, the US computer maker which is struggling with intense competition, has been hit by the resignation of its chief financial officer after a boardroom row.

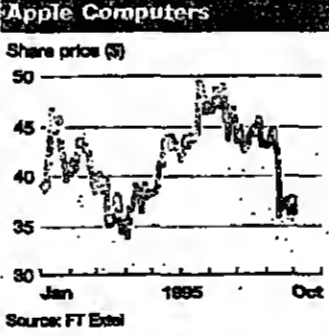
The company said yesterday that Mr Joseph Graziano had resigned due to differences in opinion with Mr Michael Spindler, chief executive.

The announcement followed a regular meeting of Apple's board of directors on Monday and Tuesday. Rumours had swirled through Wall Street before the meeting that Apple's directors might seek Mr Spindler's resignation.

Mr Spindler has been under pressure because Apple's share of the world personal computer market is falling, despite record growth in its unit sales. The company also faces severe problems with component shortages which are preventing it from keeping pace with orders for its Macintosh personal computers.

Apple yesterday declined to elaborate on the nature of the disagreement between Mr Spindler and Mr Graziano. But industry analysts said there had been a fundamental split over the company's future.

Mr Tim Bajarin, president of



Creative Strategies, an industry consulting firm, said Mr Graziano believed that for Apple to expand its share of the personal computer market, the company needed a strategic partner. "Essentially, he believed that Apple should put itself up for sale."

Mr Spindler, on the other hand, has said repeatedly that Apple "is not for sale". He is believed to have argued that with the company's shares depressed by the component shortage problem, this would not be a good time to seek a buyer.

Last month, Apple said the component shortage will have a negative impact on sales and earnings for the fourth fiscal quarter. It will be early 1996 before the problem is fully

Continued on Page 14

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Crédit Lyonnais go-ahead

By Andrew Jack in Paris

The French parliament yesterday approved the financial rescue package for Crédit Lyonnais, the state-owned bank which suffered huge losses during the early 1990s.

In an overwhelming vote from members in the centre-right ruling coalition, the National Assembly approved a restructuring by which the bank will be able to remove FF135bn (\$27.2bn) in assets from its balance sheet for sale, in an operation underwritten by the French state.

The law also approves a similar rescue package for Comptoir des Entrepreneurs, the specialist property bank indirectly owned by the state, which allows it to remove some FF16bn in loss-making assets from its balance sheet.

The decision to approve the law came in spite of opposition to the rescue plan voiced by the bank's private sector competitors and by a number of leading politicians including Mr François d'Amber, now the finance minister, and Mr Alain Madelin, the economics minister who was forced to resign in August.

The law is still subject to discussion by the French Senate. In addition, officials are awaiting publication of the detailed conditions modifying the rescue plan that were imposed by the European Commission, which granted its approval in July.

A last-minute amendment passed by parliament included the demand for senior executives of public sector companies to be liable for punishment if found guilty of poor management. However, the clause will not apply retrospectively to those including for-

The management of two activities of France Télécom, the national phone operator, came in for sharp criticism from the Cour des Comptes, the public sector watchdog, in its annual report published yesterday, writes Andrew Jack in Paris.

The report said there was inadequate preparation and management in its cable television service and its mobile telephone network. It said the move away from France Télécom's status as a public sector monopoly demanded a "business logic" that had not been in evidence and expressed doubts about the financial prospects of some of its services.

The cable TV service was likely to cost more than FF1.2bn (\$230m) between 1989 and 1996 before depreciation charges, while the mobile phone service had registered losses of FF4bn and was not providing sufficient financial information necessary for tight management.

The 1995 annual report of the Cour des Comptes also attacked the government's management approach on urban policy, employment programmes, aid to industry and handling of the budget laws, as well as incidents in various regions.

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mer directors of Crédit Lyonnais, and it will require new legislation before it can be implemented.

The National Assembly finance commission had already made a number of modifications to the French government's original proposals for the rescue package, including a provision demanding that the sale of assets removed from the bank's balance sheet be supervised by politicians and others independent of Crédit Lyonnais.

The commission also intro-

duced a provision into the law capping at FF50bn the extent of interest payable by the state to cover losses as the bank's assets are sold. The National Assembly will need to reconsider the law if the final bill exceeds this level.

The commission also recommended a re-examination of section 82 of the French banking law, which allows the governor of the Bank of France to "request" help from the leading shareholders of any bank which runs into financial difficulties.

The finance commission warned that, in the light of recent crises facing several French banks, the adequacy of this regulation had been undermined.

Hinting at the need for possible reforms to the current system of regulation of banks, Mr Philippe Auberger, chairman of the finance commission, said that the French banking commission had acted "hardly and inadequately" in its role of supervising Crédit Lyonnais. His comments come ahead of a highly critical report from the Cour des Comptes, the French public sector watchdog, which is expected in the next few days.

A reluctant law unto herself

Caroline Southey on Brussels' humanitarian aid commissioner

Ms Emma Bonino - the diminutive, chain-smoking, Italian radical - has confounded some of her staunchest critics since arriving in Brussels as commissioner in January. "She has not turned out the hot-head everybody expected," says a seasoned member of her team. "I have had to take back everything I said about her," says an experienced official working in a rival department.

But there is one area of her varied responsibilities that is particularly controversial, and her tendency for straight talking is making it more so.

When today she announces that another Ecu4.6m (\$3.5m) in humanitarian aid is to go to refugees in former Yugoslavia, she will be making public a decision made without reference to her fellow commissioners or the European Union's member states.

In fact, nearly Ecu800m of European taxpayers' money is distributed through 82 countries more or less at her discretion.

A near independent agent with that sort of clout within the Brussels establishment would be controversial whoever did the job. The fact that it is done by Ms Bonino makes it doubly so.

In Italy Ms Bonino built her political career on fighting the establishment. In 1976, during her activist years as a member of Italy's Radical Party, she was detained for three weeks for assisting women to obtain abortions which were illegal.

When she was elected as a member of parliament she was given immunity from prosecution. Although she pressed for the immunity to be lifted, it never was. Technically she could still be brought to trial.

She was also detained in New York for distributing clean needles to drug addicts as part of a campaign for safer drug use.

Now Ms Bonino is responsible for three portfolios in the European Commission - fish, consumer affairs and humanitarian aid. But it is her pro-active style in dealing with the little-known European Community Humanitarian Office (Echo) that has raised hackles in EU capitals and in Brussels.

Ms Bonino has promoted a



Emma Bonino's varied portfolio in Brussels includes fish, consumer affairs and humanitarian aid

higher profile for Echo, packing in 15 foreign trips, including three to the former Yugoslavia, in eight months. Her publicity programme has "provoked a lot of jealousy" says a senior official, adding that "there are many who would like to see her wings clipped".

Ms Bonino is unrepentant. "Openly and without hypocrisy I am battling to give Echo a higher profile. My motivation is to give Echo the same visibility as NGOs. It is a shame European taxpayers do not know how their money is spent."

Echo's handicap is that it is not always visible on the ground because it uses the expertise of 160 NGOs with which it has "partnership agreements" and who do the work.

One of her more controversial projects has been to promote a medical aid programme in Cuba. "The project has prompted the questions: is the Commission freelancing in Cuba? Where will it use humanitarian aid next?" says an EU official.

Ms Bonino denies that she is using humanitarian aid as a political weapon to influence foreign policy. "No, I have not been tempted to use Echo as an arm of foreign policy. I have been involved in humanitarian aid for many years. I am quite

clear about the difference between the two. "Echo is not the solution. Never. We are trying to soften the suffering of victims, to save lives. But is it not enough because most of the problems have a political origin and need a political solution."

Ms Bonino says she cannot use Echo's money to influence governments because it bypasses national administrations and is channelled to victims through non-governmental organisations.

"Governments ask us to give them the money all the time. They say we know the people, we will take care of our people. This happened in Cuba too. And every time I have to explain that we have a rule, and it is a good rule," she says.

Ms Bonino accepts that a structure that allows her to "do what I like, more or less" will have to change.

The heart of the problem, according to an EU official is that "Echo was endorsed with emergency short-circuiting procedures".

"It is a classical instance of bureaucracies avoiding controls by resorting to emergencies. Then the bureaucracy extends what it means by emergency to cover a wider and wider area."

Ms Bonino and member states are negotiating Echo's

first-ever mandate, which she hopes will iron out some of the difficulties. "We need a legal base so that we know what Echo is mandated to do, in what fields and with what relationship with the council."

She hopes the council will agree to a "consultative committee" rather than a regulatory one, which will set budgets and programmes for longer term crises. She also hopes it will facilitate co-ordination between Echo's multilateral work and bilateral humanitarian projects conducted by member states.

But, she cautions, there are risks involved. "One problem is the lack of co-ordination which I want to solve and another problem is systematic approval by member states which I would like to avoid."

She insists she wants to retain control, not because of "personal narcissism" but simply because "if I decide, say Liberia, and you need the approval of 15 member states you will take care of Liberia in six months' time."

Above all she wants to "prevent the idea that because humanitarian aid is not the solution it is a waste of money. I believe saving lives is not a waste of money. Of course to prevent crises is much better, but that is not up to me and Echo."

Chirac warns on welfare reform

By David Buchan in Paris

President Jacques Chirac yesterday warned French taxpayers that they would all have to help bail out the deficit-ridden social security system, which could no longer be propped up by payroll contributions from employers and employees.

In his first important speech since his election in May on the future of France's welfare system, Mr Chirac said he would "guarantee" the present level of pension, family allowances and health insurance, but warned that the whole system was threatened by its chronic deficit. In 1993 the state assumed past social security debts of FF110bn (\$21.6bn), but since then the system has fallen into the red to the tune of another FF120bn, the president said.

The government of prime minister Alain Juppé has pledged to halve the annual welfare deficit to FF30bn next year and to reduce it to zero in 1997, as part of its effort to prepare France for European monetary union.

Financial markets and the Bank of France itself appear to be awaiting the government's welfare reforms before tak-

ing any further action to ease French interest rates.

In his speech at the Sorbonne to mark the 50th anniversary of the country's post-war welfare system, Mr Chirac complained that by being the only leading

The medical profession in France faces 'its last chance' to reform itself

industrialised country to fund welfare from payroll charges, France had handicapped itself. "This penalises us in international competition, and in employment... by encouraging companies to buy machines rather than hire people."

The president's main aim yesterday was to call for national calm in debating welfare reform, in advance of next Tuesday's general strike in the public sector. The immediate spark for this strike is the government's plan to freeze public sector pay rates next year in order to help slice 10 per cent off the budget deficit, but the unions are also worried about changes in

the social security system which at present they co-manage with employers.

Mr Chirac fired a warning shot at managers of the French health system, which costs 10 per cent of GDP and is Europe's most extravagant. He said he still believed the cure lay in doctors agreeing to improve efficiency, rather than government slapping spending limits on them.

But, in the wake of recent figures showing that medical costs are soaring again, at nearly 7 per cent a year, the president said he was worried that his gentler approach, which won him the doctors' vote in the election, was "running out of steam". The French medical profession faced "its last chance" to reform itself, he said.

Earlier, Mr Chirac presided over a cabinet meeting which endorsed a draft proposal to pay elderly people FF4,300 a month allowance to enable them to hire home helps.

If approved by parliament, the measure would cost FF20bn next year, split evenly between central and local government, and create 50,000-70,000 part-time jobs, officials said.

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NEWS: ASIA-PACIFIC

ASIA-PACIFIC NEWS DIGEST

Asahara 'admits poison gas role'



Mr Shoko Asahara (pictured left), the religious cult leader accused of masterminding a poison gas attack on the Tokyo subway system in which 12 people were killed and about 5,500 injured last March, has started to admit his involvement, according to NHK public television. A confession would mark a complete reversal for Mr Asahara, who has steadfastly denied involvement in any of the crimes for which the Aum Shinrikyo cult is believed to be responsible. After his arrest in May, he refused to co-operate with the authorities.

NHK reported that Mr Asahara, who is charged with murder and attempted murder in connection with the subway attack, had started to confess to these crimes as well as others, including an earlier gas attack at a mountain resort which left seven people dead and made 600 ill and ordering the murder of a follower who tried to leave the cult last year.

However, NHK also reported that Mr Asahara's lawyer and members of the cult believe the confession to have been obtained by the police with the promise that Aum Shinrikyo would not be forced to disband.

Michiko Nakamoto, Tokyo

North Korean rice crop 'halved'

North Korea's farmers are likely to harvest only half their normal rice crop because of flood damage, Japanese Food Agency officials said yesterday. They said North Korean diplomats in Beijing also confirmed earlier reports that the North's overall grain production for the 1995-96 crop year was likely to be down by about a third from its 5.67m tonne target.

The food agency officials were in the Chinese capital to sign a deal with Pyongyang which will see Japan supply a further 300,000 tonnes of emergency rice to North Korea. Japan had already agreed in June to send 300,000 tonnes of rice.

"We're informed that total grain output in the North this year is expected to fall to 3.77m tonnes from the original target of 5.67m tonnes," a senior agency official said. Output of rice, a staple food in the North, was expected to be about half of the 2m-tonne target, another official said.

Reuters, Tokyo

Indonesian trade in surplus

Indonesia yesterday announced a trade surplus of \$363.5m in July, compared with a deficit of \$204.9m in June, Information Minister Harnoko said. The consumer price index rose 0.38 per cent in September compared with a 0.32 per cent rise in August but lower than the 0.53 per cent in September 1994.

"The surplus for July is a good sign and will restore confidence in the economy, which is on the right track," Mr Edwin Png, country treasurer for Bank of America, said.

"Inflation seems to be under control and although it was slightly higher than August, it's no big deal compared with the level last September (in 1994)," he said.

Mr James Hanson, a Jakarta-based economist at the World Bank, said Indonesia should reduce its outstanding foreign debt on the back of increased capital inflows. "In the context of increased private inflows of equity and debt, it would be desirable for the government to continue to reduce the outstanding public foreign debt," he said.

Reuters, Jakarta

Plan seeks to address widening gap between coastal boom and interior backwardness
China aims to boost growth in poor areas

By Tony Walker in Beijing

China yesterday released documents calling for a concerted effort to narrow a widening gap between its prosperous coastal regions and its underdeveloped hinterland to counter possible social unrest in deprived areas.

Beijing would also encourage development of larger regional units rather than individual provinces as part of attempts to redress serious imbalances in income and living standards across its vast territory.

The drive to re-direct resources to poorer areas was outlined in China's ninth five-year plan (1996-2000) and its 15-year strategy, both of which were approved last week by the Communist party's central committee.

The strategy blueprint, designed to carry China forward into the next century, is short on detail and long on general principles. But it underscores leadership worries about serious imbalances in economic development.

Chinese leaders have become

A senior official of China's Ministry of Internal Affairs has promised better access for foreign companies to its booming retail sector and said the distribution system is in urgent need of improvement, Reuter reports from Shanghai.

Beijing has approved 14 joint venture department stores in 11 cities on an experimental basis, Mr Ding Junfa, director of the ministry's office, was quoted as saying by the China Securities newspaper.

Imported goods may account for up to 30 per cent of the turnover of these stores but they must achieve a foreign exchange balance on their own, Mr Ding said.

Increasing concern over widening disparities between coastal areas, which have attracted a flood of investment, and the interior. Many among an estimated 70m Chinese living below the poverty line are from inland provinces. The authorities

pledged to increase investment in impoverished regions and provide tax and other incentives to lure investors to more remote areas.

The 15-year plan, known as "Long-Term target for the year 2010", called for larger cash transfers to poor

areas, for priority to be given to infrastructure projects in poor areas, and also for labour-intensive industries such as textiles to be moved to the interior.

Proposals to boost development in poorer regions were aimed at complementing China's overall economic strategy of completing the shift from a planned economy to a market-oriented system by 2010.

"During this period, we shall establish a comparatively complete socialist market economic system... while laying a solid foundation for the basic realisation of modernisation in the middle of the next century," the plan said.

China's ninth five-year plan and its longer-term blueprint for economic development called for increased emphasis on agriculture to feed a population of 1.2bn, a continued opening to the outside world and the progressive reduction of tariff and non-tariff barriers.

The documents also outlined steps

to improve the performance of state enterprises, but they gave little encouragement to those demanding swifter privatisation. Rather, Chinese leaders emphasised the need to reinvigorate state-owned companies as the basis of the evolving socialist market system.

"Whether we will be able to speed up the process of modernisation and gain the initiative in international co-operation and competition will decide China's position and destiny in the next century," the central committee said.

The documents also promised:

● A progressive levelling of the playing field for foreign investment, in accordance with the country's attempts to join the World Trade Organisation.

● A firm grip on construction to help control inflation and to protect farmland.

● Development of an interbank market to help create a real market for national debt and reduce the budget deficit.

Inflation soars in Philippines

By Edward Luce in Manila

Philippine inflation leaped by more than three percentage points to 11.8 per cent in September, prompting widespread concern that the economy may be overheating.

The jump - the sixth successive monthly rise since inflation touched a low of 5.1 per cent in February and the largest monthly increase since 1991 - caused a fall in the Philippine stock market of 1.3 per cent to 2,569.

Stock exchange analysts pointed out that the market had been languishing for weeks in expectation of higher inflation but expressed surprise at the size of the increase in yesterday's announcement.

"This is well above what anybody expected," said Mr Joey Salceda, chief researcher at SBC Warburg in Manila.

"The government seems to have let the inflationary monster out of the cage, and it is going to be very difficult to put it back in again."

However, Mr Gabriel Sing-

son, governor of the central bank, said that the rise was a temporary blip because of rice shortages which would be ironed out by the end of the month. He disagreed with suggestions that the rapid growth in broad money (M3) was behind the steep price rises.

The latest inflation figures come just five days after the government put its final signature on a revised agreement with the International Monetary Fund, permitting the Philippines to increase the annual M3 growth target from 24 per cent to 31 per cent.

The government told the IMF that economic growth, which was 5.2 per cent in the first six months of 1995, was being held back by tight monetary policy.

Economists said yesterday that, at 9.8 per cent, the central bank's benchmark 91-day T-bills were too low and should be pushed up steeply to choke off the growing inflationary momentum.

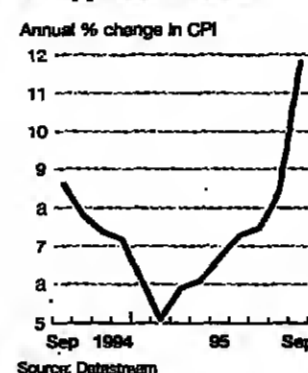
"The government is at a critical juncture," said Mr Salceda. "Either it bites the

bullet now and attacks inflation or it allows the problem to get worse."

Concern was also expressed yesterday about the government's commitment to approve higher petrol pump prices, which are subsidised at about half world market levels. Under the revised IMF agreement, the government has pledged to deregulate oil prices as soon as possible.

Leading Philippine companies, however, have warned they will raise consumer prices in the event of an oil price increase. The Philippine senate, meanwhile, pledged last week to boost the minimum wage by 25 per cent in response to a petrol price rise.

Philippines inflation



Source: Datamatrix

Thailand 'committed' to financial liberalisation

By Ted Bardacke in Bangkok

Thailand remains committed to liberalisation of its financial market, despite moves in the past two weeks to restrain some foreign lending and worries that a more open market could exacerbate the country's rising inflation rate and large current account deficit, Mr Surakiat Sathirathai, finance minister, said yesterday.

Mr Surakiat said the strict rules and high capital requirements for new foreign banks and curbs on non-bank lending were "temporary measures".

"The liberalisation policy is there," he said. "But how we would like to liberalise depends on the condition of our economy at a given time... and we don't expect the current situation to last for five years. Liberalisation does not mean everyone can do anything they like. We don't want the Thai and foreign banks to encourage speculation or encourage sectors that are not productive for the economy."

Responding to criticism that the \$30m initial capital requirements for new foreign banks, at least four times higher than any other country in the region, would lead to a plethora of high-volume, low-margin banks rather than a broadening of financial services offered, Mr Surakiat said additional licences would be offered for foreign banks with particular specialities which were lacking in Thailand.

But he noted this additional round of licences was some time away, adding that, "for psychological rather than economic reasons", licences for five new domestic banks would be issued before any new foreign banks were allowed to begin operations. Those new domestic licences should be granted in mid-1996, he said.

Asked to comment on the clause in the new banking regulations specifying that only banks from countries with financial liberalisation policies would be allowed to apply for new licences - a measure seen as a snub to the US for its exemption request in the Gen-

eral Agreement on Trade in Services - Mr Surakiat said that the US had a financial liberalisation policy "to a certain extent, but I would welcome them doing more".

Mr Surakiat also said that next month the Securities and Exchange Commission would consider the establishment of Thai Trust Funds, which would eliminate the large price differential between foreign and domestic shares quoted on the stock exchange. "This will open new opportunities for foreign and domestic investors to invest in our capital and money markets," he said. "We have to broaden and deepen those markets."

He added that a high-level committee studying long-term measures to reduce Thailand's current account deficit would be ready with its recommendations in two to three months. The committee was particularly interested in ways to increase earnings in the services sector, notably from areas such as transport, shipping and copyright.

NEWS: WORLD TRADE

Thailand doubts over use of LNG

By Ted Bardacke in Bangkok

The selection committee overseeing Thailand's \$4.5bn Independent Power Producer electricity programme may eliminate bidders who based their projects on the use of liquefied natural gas, the new governor of the state-owned Electricity Generating Authority of Thailand (EGAT) said.

Thailand does not have enough indigenous natural gas to supply all the demand expected from the IPPs and steps have been made to set up an LNG gas terminal to fuel the IPPs.

But Mr Preecha Chumwattana, who assumed the top post at EGAT on Monday said that the high price of LNG and potential supply difficulties made it risky for EGAT to buy electricity from power plants using it as fuel.

About half of the 30 consortiums which submitted IPP bids proposed using natural gas as their primary source of fuel on the assumption that LNG could be used as a substitute and that the price differential between the two fuels would be passed on to the consumer through EGAT. Most of the rest of the bidders proposed using imported coal to fire their plants.

Mr Preecha added that once supply arrangements were settled, an additional IPP programme exclusively for power plants fuelled by LNG could be implemented.

He also said that due to many errors in the bid documents filed by the consortiums, EGAT was postponing the announcement of its short-list for three months until January.

The extra time will be used for consultations between EGAT and the consortiums, so that they may correct the errors which included listing electricity prices in US dollars rather than Thai baht and asking EGAT to start buying electricity as early as 1996 when the earliest purchases contemplated are in 2000.

US and EU open trade dialogue

By Nancy Dunne in Washington

Businessmen and government officials from the US and the European Union are to meet in Seville next month to discuss broad bilateral trade and commercial relations, Mr Ron Brown, the US commerce secretary, said yesterday.

With both Brussels and Washington reluctant to pursue a free trade agreement in the near future, the business-driven dialogue is seen as a logical alternative towards realising a free trade area.

"We are always issuing white papers and theorising on issues with not enough consultation with industry, where the rubber meets the road," Mr Brown said yesterday. "It is

crucial that we make policy decisions in concert with those who are most affected."

He will lead the US delegation along with Mr Paul Allaire, Xerox chairman, and Mr Alex Trotman, the chairman of Ford. EU commissioners Sir Leon Brittan and Mr Martin Bangemann together with Mr Jürgen Strube, chairman of BASF, and Mr Peter Sutherland, chairman of Goldman Sachs International, will head the EU side.

Mr Brown said business recommendations would be presented to President Bill Clinton for his discussions with Mr Jacques Santer, president of the European Commission, and Spanish Prime Minister Felipe Gonzalez during the US-EU summit in December.

Companies on both sides of the Atlantic have helped develop the agenda. Four working groups will be established to address standards, testing and regulations; trade liberalisation; investment and third country relations.

EU and US officials sent letters to 1,800 businessmen last April soliciting views on improving bilateral relations. US businessmen showed the greatest interest in efforts to reduce trade barriers created by standards, testing and regulations. Particularly, they wanted co-operation on environmental regulation.

Some US businessmen wanted further trade liberalisation with others recommending an acceleration of tariff cuts agreed in the Uruguay

Round of global trade talks. US companies also wanted greater co-operation promoting the business climate in central and eastern Europe and other third country markets. Both US and EU businessmen said they wanted faster and co-ordinated deregulation of telecommunications.

European executives suggested that the EU and US co-ordinate to reinforce the multinational trade system and that regulatory issues be addressed. On the EU side there is interest in the harmonisation of taxation and competition policies. Several executives proposed using the Internet to facilitate trade by linking buyers and sellers in specific sectors and potential candidates for joint ventures.

Carmakers settle for second best
Michio Nakamoto on one market that defies Japanese invasion

Japanese carmakers are not known for passing up opportunities, but their reaction to South Korea's concessions on liberalising its car market has been closer to indifference than enthusiasm.

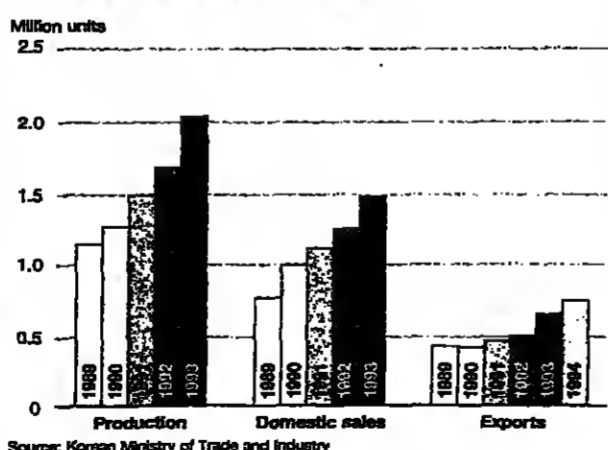
Despite last week's concessions to US and western car manufacturers, the Korean government has made no move to lift its long-standing ban against Japanese cars. Seoul cites as the reason for the ban Korea's trade imbalance with Japan. Although South Korea has gradually lifted import restrictions, it has maintained the ban on Japanese cars.

"Japanese government officials have asked the Korean authorities time and again to lift the ban," said an official at the Ministry of International Trade and Industry.

However, despite their aggressive expansion into overseas markets, Japan's carmakers have been reticent about the obstacle blocking their way into a promising market just across the Sea of Japan.

Their silence stems in part to a particular sensitivity about Korean animosity towards Japan which has lingered since Japanese colonisation of the Korean peninsula earlier this century. "It looks like an attractive market but we would rather not arouse anger

South Korean car industry



Source: Korean Ministry of Trade and Industry

in Korea," says an official at a major Japanese carmaker. The car groups are also aware that Japanese cars would not be widely accepted in Korea, perhaps a result of the negative impact of the South Korean government's policy of promoting domestic products.

For their part, Korean manufacturers have not entered the Japanese market in any significant way either. Although this is mainly because Korean cars compete head-on with Japanese cars, there is an atmosphere of mutual consent to

provide the basic design, is scheduled to start in 1998 and Nissan will receive technology transfer fees as well as royalties on sales.

Japan's second largest carmaker believes that this long-term approach, working with local interests, is a more appropriate way to build its business in Korea.

Mitsubishi Motors holds a similar view. The Japanese carmaker has a 4.5 per cent stake in Hyundai Motor, while Mitsubishi Corporation, which belongs to the same business group, holds a further 5.5 per cent.

MMC provides Hyundai with technology for a luxury car and is unlikely to want to export to South Korea, at least in the near term, a company representative points out.

Honda, which has a technology tie-up with Daewoo, says that while recent US moves may encourage Japanese carmakers to take another look at the Korean market, the obstacles remain formidable.

Not only do Japanese cars have very little brand recognition in the country, South Korean carmakers are extremely competitive in the low cost entry level market. Japanese carmakers export from a higher cost base and will find it difficult to compete, he says.

Congress disappoints Caribbean exporters

By Canute James in Kingston

US legislators, concerned about a flood of imports and a possible loss of jobs, have halted consideration of proposals intended to give 24 Caribbean countries "parity" with Mexico in selling a range of exports to the US.

The Caribbean countries fear they will lose their markets to Mexico, which has an advantage as a member of Nafta.

The legislation offered the Caribbean Basin enhanced access, particularly for textiles and clothing, one of the faster growing exports to the US. Some legislators, reacting to concerns of domestic producers and organised labour, removed the "parity" proposals from pending legislation.

It is the second time in two years that legislators have rejected plans to put the Caribbean on a par with Mexico.

The 24 countries in the Caribbean and Central America have benefited from the Caribbean Basin Initiative, a trade programme implemented by the US 11 years ago which allows countries selected by Washington to export a range of products duty-free to the US.

The region has been unhappy that the CBI excluded several categories, mainly textiles and clothing and leather goods.

Caribbean clothing exports to the US are under a separate programme, with quotas given for categories of products, most of these assembled in the region from textiles produced and cut in the US. Since the implementation of Nafta, Caribbean exporters have been saying that their US markets are threatened by a more competitive Mexico, and have been asking the Nafta partners to grant them parity.

"This is a substantial setback particularly for the Caribbean textile and apparel industry," said Mr Peter King, chairman of the Caribbean Textile and Apparel Institute, a lobby for the region's industry.

"We had hoped that passage of the Parity Bill would have taken place this year. There is simply too much at stake for us to give up at this stage."

WORLD TRADE NEWS DIGEST

Market set to double for chips

The world semiconductor market will more than double in size by the end of the decade, to reach annual sales of \$331bn up from \$149bn this year, according to a report published by Dataquest, the market research company. Driven by strong growth in the personal computer sector, worldwide sales of semiconductor components are expected to increase by nearly 36 per cent this year, the market analysts said. Growth is, however, being constrained by production capacity.

Demand for semiconductor products is currently outstripping supplies, and the imbalance is expected to continue until the early part of 1997, despite record levels of investment in new plants and equipment.

"Our optimistic outlook for the chip industry is only clouded by the excessively long lead times for (production) equipment and scarcity of skilled employees," said Mr Gene Norrett, vice president and director of Dataquest's Worldwide Semiconductor Group.

Louise Echols, San Francisco

Irish crafts earn £100m

Ireland's craft industry, long associated with crofters' tweeds and hand made woollens, is estimated to have earned over £100m (\$62m) in 1994-1995, an increase of 25 per cent over the previous period, making it one of the fastest growing sectors of the economy.

Irish crafts are a feature of the 1996 trade buyers fair, Showcase Dublin, which opened in the Irish capital this week. Showcase Dublin, one of Europe's most important craft and design fairs, was attended last year by more than 8,000 exhibitors, and made sales of £23.4m, up from around £20m in 1994. The new orders led to the creation of 730 new jobs. The craft industry is providing an important safety net in a period of high unemployment with between 10,000 and 12,000 people employed often in two or three person workshops in rural areas of the country.

John Murray Brown, Dublin

Aerospatiale and partner Daimler-Benz Aerospace (Dasa) have won a contract to build two telecommunications satellites for Chinese operator Sinosat Communications. They will be launched by Chinese rockets. Aerospatiale said the export order book for the two companies totalled 16 telecommunications satellites, worth \$1bn. Sinosat is the project manager for EuroSpace, a joint venture between Dasa and China Aerospace.

CAE, the Canadian electronics group, through its German subsidiary, has won a C\$64m (US\$40m) contract to upgrade seven Tornado full-flight simulators for the German defence ministry.

Robert Gibbons, Montreal

Siemens of Germany said its public communications networks division has won contracts from Telefonos de Argentina, Telecom Argentina and other local companies to supply more than 1m units of its digital switching system. The Argentine companies also awarded Siemens orders for more than 5,500km of fibre-optic line.

AFK, Munich

Ansett Australia and Taiwan's EVA Airways will code share their services between Australia and Taiwan allowing each airline to sell the other's seats as its own. EVA has two return flights a week between Australia and Taiwan. Ansett flights next month.

Reuters, Canberra

A consortium of three South Korean companies, led by Posco Engineering and Construction, has been awarded a \$130m contract to build on a turn-key basis a huge special steel plant in Egypt. The plant, with an annual capacity of 140,000 tonnes, will make special steel products in Sadat City, 80km north-west of Cairo. Construction will start in March 1996 for completion by early 1999.

Reuters, Seoul

هكذا من الأصل

هكذا من الذهب

HOW MASTER CRAFTSMEN MAKE PATEK PHILIPPE A LEGEND OF OUR TIME.

From the time the world's first Guild of Master Watchmakers was founded in Geneva nearly four centuries ago, our city has been the undisputed capital of fine watchmaking. Ever since 1839, from one generation to the next, master craftsmen have enjoyed a privileged environment at Patek Philippe. In fact, Patek Philippe has been almost a guild itself, attracting the most accomplished and forward-thinking designers, watchmakers, goldsmiths, chainsmiths, jewellers, enamellers and engravers.

Today, Patek Philippe is the world's only complete watchmaker still capable of perpetuating all of these time-honoured crafts, setting a standard consistent with Geneva's reputation. For only the skilled and sensitive hand of the master craftsman can create, shape, polish and assemble mechanical components into a fine precision instrument.

Now, come spend a few moments with us to discover more about some of the master craftsmen behind Patek Philippe watches.

The designer combines avant-garde concepts with motifs that are Patek Philippe legacies. As he gives substance to an idea, he respects the values that endure from one century to the next. He makes hundreds of drawings until he captures a design that represents the artistic ideals of the age.

Patek Philippe ingenious watchmakers, such as our world authority on chiming and repeating watches, are often referred to as 'the men with the golden hands'. Scores of other rare skills are kept alive in our master watchmakers' talented hands, from balance poising to the building of the Calibre 89, the world's most complicated pocket watch.

Our goldsmiths adhere to the traditions of one of the oldest decorative arts, bringing together the skills of a jewellery maker, case maker, jewel setter and polisher.

Is it an illusion, you may ask, that the delicate tracery of a gold bracelet could be so supple, yet so strong? It's the magic of the chainsmith's art. Each bracelet is created entirely by hand. Each is one of a kind.

Our master jeweller is steeped in the great Geneva tradition of gemmology and further trained in Patek Philippe's own ideas of beauty and value. The brilliance of his work on the dial of a dress watch quietly reflects perfection.

The art of painting an enamel miniature on the cover of a pocket watch requires skills that only a few artists continue to practice today. We still decorate a bespoke pocket watch to meet the expectations of the most discerning collectors.

With tools handed down over the years, the master engraver creates a certain lustre

and brilliance, especially when depicting movement or light on water. Only one or two enchanting scenes are created each year.

But there is yet another dimension to our story of master craftsmanship. Throughout its 155-year history, Patek Philippe has consistently distinguished itself by its pace-setting research, development and engineering, where many pioneering ideas take shape. In fact, Patek Philippe's influence in defining the evolution and progress of modern watchmaking is a legend in itself.

We were awarded our first patent in 1845, and as our master technicians set new standards of watchmaking in their quest for perfection, the list of patents continues to grow.

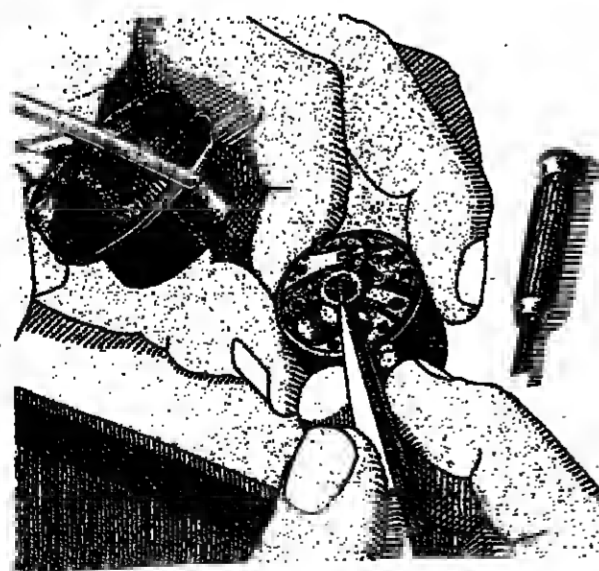
Our respect for the highest values of watchmaking tradition, creativity and perfection combined with the most advanced technological thinking will be passed on dutifully to future generations of Patek Philippe watchmakers far into the Third Millennium.

Perhaps that is why we are often called 'the guardian of Geneva's great tradition of horology'.

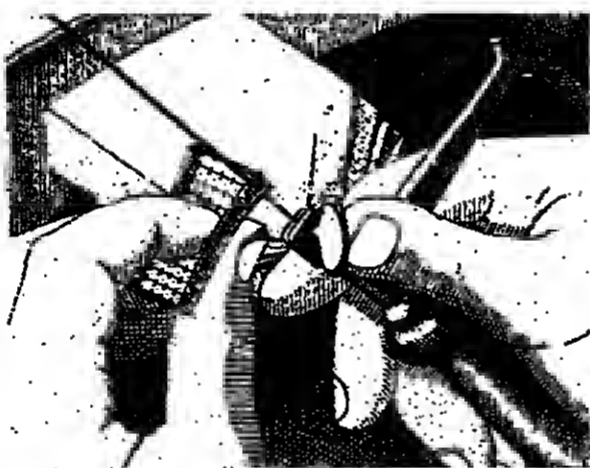
A Patek Philippe masterpiece, respected and treasured from generation to generation. Its destiny is to be a legend.



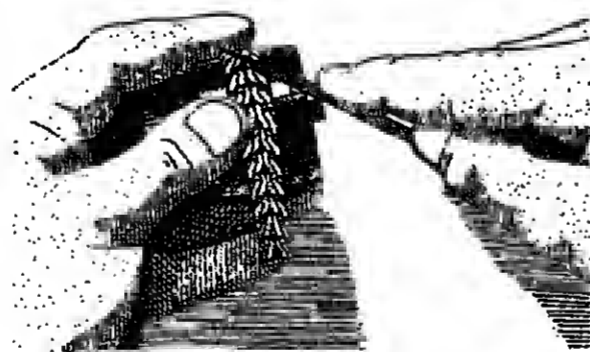
The master designer gives substance to an idea that says something about the enduring values of Patek Philippe.



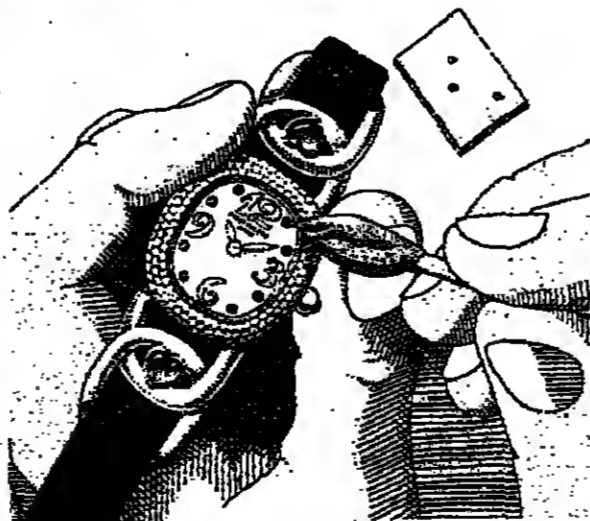
Patek Philippe's 'complete watchmaker', a title reserved for the legendary elite of their craft, meticulously finishes each part of a movement by hand.



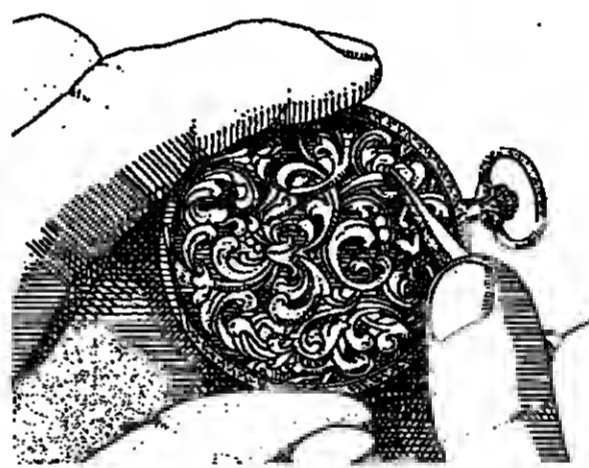
The specialised skills that were once the pride of Geneva's goldsmiths are kept alive in Patek Philippe's workshops.



The chainsmith gives the most delicate tracery of a gold bracelet remarkable suppleness and strength.



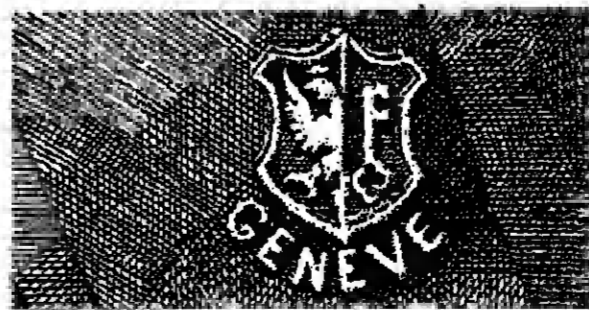
The jeweller reveals his skills in the way he perfectly integrates each gem in its environment of precious metal.



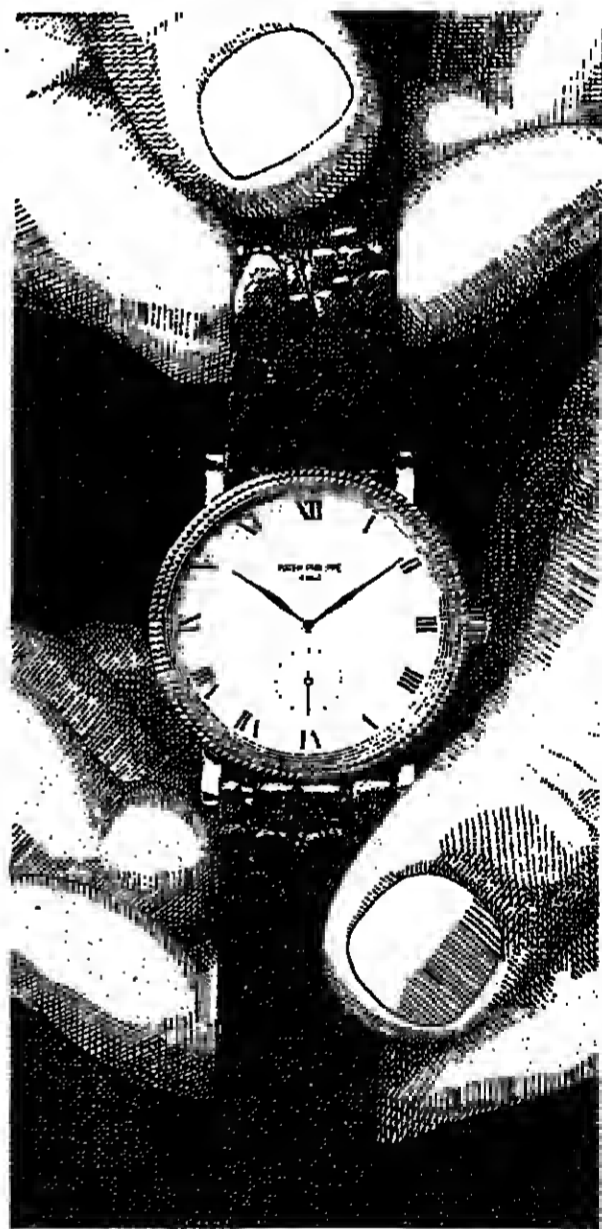
Engraving the cover of a millimetre-thin pocket watch cover requires skills that are almost forgotten.



A miniature masterpiece in enamel takes six months of dedication. Almost all of the world's remaining enamellers work in Geneva for Patek Philippe.



Only Patek Philippe has mechanical movements in regular production which have been awarded the coveted Geneva Seal—the highest mark of recognition in watchmaking.



The hand of a master craftsman alone can shape, polish and assemble the mechanical components of a perfectly functioning precision instrument.



PATEK PHILIPPE
GENEVE

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NEWS: THE AMERICAS

Medicare plan under fire by health lobby

By Jurek Martin in Washington

The American Medical Association, the health industry's largest pressure group, has registered strong reservations about a central ingredient of the Republican plan to reform Medicare for the aged.

Senior AMA officials said that reducing payments to doctors, hospitals and clinics "would be a major blow to the traditional fee-for-service Medicare programme."

Many providers of medical care, they said, might refuse to treat Medicare patients, forcing them into health maintenance organisations and other private insurance plans.

The Republican reform plan states that patients will be guaranteed continuation of conventional Medicare coverage if they prefer, although it encourages them to consider alternatives, including HMOs and medical savings accounts.

The AMA's intervention, disclosed in the New York Times, could be as significant in the unfolding Medicare debate as it was last year in the ultimate failure of the Clinton administration's far-reaching health reform proposals.

The AMA initially backed guaranteed universal health insurance, but later was a leader in the fight against forcing employers to provide such coverage on the grounds that the government was being asked to play a role in the whole health system.

Opposition to "employer

mandates" was critical in the defeat of the administration's overall proposals.

On this occasion, the organisation appears to be acting in the conventional lobbyist's manner by seeking to protect the interests of its members.

It claims that the complex so-called "conversion factor", by which fees are determined for various medical procedures, was being reduced from current levels at a time when medical overheads continue to rise.

The independent Congressional Budget Office has provisionally concluded that the Republican plan could achieve its goal of cutting \$270m from the growth in Medicare costs over the next seven years, but that patients, through higher premiums, and doctors, through lower fees, would end up bearing the brunt of the reforms.

Vested interests have so far taken a cautious approach to the proposed Republican reforms of a programme covering 37m Americans, although public opposition, as measured by the opinion polls, appears to be on the rise.

Typical has been the American Association of Retired People, which lobbied hard for the administration's plan last year.

This time the AARP has mostly sat on the fence in the apparent conclusion that it was better to work with the new Republican majority in Congress than try and frustrate it at every turn.

Modest rise in leading indicators

The US government's main economic forecasting gauge rose modestly in August, the Commerce Department said yesterday, partly because of stronger manufacturing activity. Reuter reports from Washington.

The index of leading indicators, designed to forecast economic trends six to nine months ahead, rose 0.2 per cent after a 0.2 per cent decrease in July. The index has risen in two of the past three months, suggesting a firmer underlying tone of economic activity after a weak second quarter.

The index measures a basket of economic indicators ranging from unemployment benefits claims to building permits. Eight of its 11 components strengthened in August while three were weaker.

The department announced last month that it was turning over the leading indicators report at the end of the year to the private Conference Board, which assisted in preparing the August report.

The New York-based Conference Board has 2,000 corporate members and specialises in business research.

The leading indicators in August were led by higher orders for manufactured consumer goods and by fewer claims for unemployment insurance. In addition money supply rose, the average working week was longer, and plant and equipment orders increased. There were more applications for building permits, higher stock prices and increased order backlogs at manufacturing plants.

Because of generous retire-

Brazil's civil service black hole

A bloated payroll lies behind the chaotic state of public finances, writes Angus Foster

Brazil's southernmost state of Rio Grande do Sul has a voracious monster in its budget. For every R\$100 of tax revenues raised, R\$81 goes in salaries and pensions for its bloated civil service.

"Any politician today who has been a mayor or governor knows that Brazil's states and municipalities are ungovernable without cuts to the absurdities and privileges in public administration," fumes the state's governor, Mr Antonio Brito.

President Fernando Henrique Cardoso has proposed a number of reforms to help governors bring spending under control. Constitutional laws preventing the sacking of civil servants are to be reviewed and some salaries are to be capped. But the chaos in Brazil's public finances, the result of a decade of high inflation and bad government, will not be easily rectified. Reducing the states' payrolls may simply turn the focus on an even more difficult problem, their debts.

Rio Grande do Sul's budget problems are no different from the rest of Brazil. The state has the advantage of being one of Brazil's richest and, with the well-regarded Mr Brito newly elected as governor, there is a chance that its public finance problems will be tackled.

Mr César Busatto, the state's finance secretary, says the new government has already cut some jobs and outlawed some of the abuses built up under previous administrations. About 20 people were found to be receiving monthly salaries of more than R\$15,000 (\$15,790), even though state law forbids civil servants earning more than the governor's salary of R\$8,000 a month.

Because of generous retire-



Cardoso: seeking reforms to curb spending



Brazil's inflation fell to 0.74 per cent in September, the lowest figure since December 1973, according to the Economic Research Institute (Fipe). Reuter reports from São Paulo. In August, inflation was 1.43 per cent.

A drop in food and clothing prices was the main reason for the fall, Mr Juarez Rizzieri, president of the Fipe institute and co-ordinator of the Fipe index said.

force from 3 to 4 per cent of revenues to something like 25 per cent," says Mr Busatto.

The abuses in Brazil's government machinery were able to continue unchecked only so long as inflation remained high. With inflation at 30 or 40 per cent a month until July last year, it was difficult to keep track of government spending. State governments were also able to push payroll costs down by paying salaries late, allowing inflation to reduce real wages.

With monthly inflation now less than 2 per cent, the federal and state governments are dis-

covering some unpleasant skeletons in their fiscal closets. Probably the most disturbing relates to state government debt, which is ballooning dangerously because of Brazil's still high real annual interest rates of more than 30 per cent, as a result of the government's continued tight monetary policy.

By far the most pressing problem is the states' tradeable debt, mainly held in the form of short-term securities. At the end of June, tradeable debt issued by the states totalled US\$33.9bn and was almost totally owed by Brazil's four most important states, São Paulo, Minas Gerais, Rio de Janeiro and Rio Grande do Sul.

Some are calling for federal government help in restructuring their tradeable debt. They are suggesting selling state assets to pay off part of it and seeking federal government support to restructure another portion into international debt at international rather than Brazilian interest rates.

Although the federal government says it is open to suggestions, it has so far been slow to help the states.

But, says Mr Busatto, state debts are "out of control". Rio Grande do Sul has not issued any new debt in the last five years, yet its outstanding tradeable debt has grown from US\$4.7bn last month. The interest costs on this debt have reached R\$150m a month. Total government receipts in August were R\$266m.

"There's no way the state can afford to pay this debt, we can only roll it over. Our debt has grown at an average annual rate of 31 per cent, exclusively because of the absurd interest rates we have to pay," he says.

Debate is raging in Washington over 'corporate welfare' for agriculture, reports Laurie Morse

Cosseted US farmers may face \$1.7bn payback

US wheat farmers will be forced to repay \$900m in advance subsidy payments to the government this year, as market prices move above "target" levels that qualify the crop for government support. The development comes as debate rages in Washington over what opponents call "corporate welfare" for agriculture.

It is the first time in the history of the US wheat subsidy programme that such a payback will be required. Tight world grain supplies and rapidly rising global food demand have pushed the season average market price for wheat at the farm gate over \$4 per bushel. Under US farm law, that price is considered high enough to provide a fair income to producers and make subsidy payments unnecessary.

Maize and other feed grain prices will also top their subsidy targets this year, according to US Department of Agriculture projections, leaving the US Treasury expecting a total of \$1.65bn in advance grain subsidy refunds from farmers by late next summer.

The advance payments were made last March, based on Department of Agriculture price projections that underestimated the strength of the market.

The target price system is a cornerstone of existing US farm laws that are up for revision in Washington. For nearly 60 years, US agriculture policy has sought to provide an income safety net to farmers during lean years, and leave them to market forces when prices are high.

However, reforms championed by the Republican leadership would guarantee subsidy payments to farmers, on a

diminishing basis over the next seven years, regardless of how high or low market prices move. This would cut \$13.5bn from the farm budget during the period, but Democrats have sought to block the measure, known as the "Freedom to Farm Act," because of the temporary windfall it would create for farmers currently enjoying their strongest markets in two decades.

The Democrats have been succeeding because they have been joined by a handful of rebel southern Republicans who seek to preserve generous subsidies cultivated over many years for southern commodities such as rice, cotton, and peanuts.

Cotton and rice producers can expect a second subsidy cheque of \$800m in price supports

This year, for example, while prices for cotton and rice are also soaring, producers will be allowed to retain their advance subsidy payments. They can even expect to receive a second government subsidy cheque this winter, after harvest, for a total of about \$800m in price supports.

They will get to "double dip", where grain farmers will not, because target prices for cotton and rice have been set artificially high. Price support programmes for other southern commodities, such as peanuts, have also been liberally drawn. With high market prices and

subsidy payments already secure, southern farmers have nothing to gain from "Freedom to Farm".

This regional split has cost Mr Pat Roberts, the House agriculture committee chairman and author of the "Freedom to Farm" act, his chance to direct this year's farm policy overhaul from within his own committee. Last month, admitting an impasse, he promised to transfer the farm subsidy debate to the House budget committee and said he would like to see "Freedom to Farm" offered to the full House floor, where he believes it will get strong majority support.

Mr Richard Lugar, Senate agriculture committee chairman, managed to break a similar impasse on his committee before this week's recess, passing by a narrow margin a compromise bill that also cuts more than \$13bn from the farm budget, but leaves most of the existing price support programmes, including the target price system, intact. Its savings are achieved by reducing the number of acres available for subsidy payments.

The wrangling in Washington will have no impact on this year's subsidy payback by grain farmers. They will be given a choice of writing a cheque for the government, or foregoing a portion of next year's subsidies.

Although grain prices are forecast to remain high through next season, Department of Agriculture policy makers say that given just a normal world crop next year, wheat prices are projected to fall back below \$4.

"We won't have any trouble getting the \$1.65bn back," said one policy analyst. "They'll pay us so they can get more money next year."

Killer Hurricane Opal threatens Florida coast

Hurricane Opal became a powerful storm early yesterday as it raced toward the coast of northern Florida with 150mph winds, forecasters said. Reuter reports from Pensacola.

Opal's heavy rains were blamed for at least 10 deaths in the Mexican states of Campeche and Tabasco.

Thousands of residents of Florida's northern coast fled their homes, jamming an interstate motorway in their haste to move inland to shelters and hotels. Even the local newspaper was forced to evacuate its office and printing plant.

Forecasters said they were concerned about Opal's eye, which had shrunk during the early morning hours to a mere 10 miles wide from 30 miles. A smaller eye usually indicates a more powerful and intense storm.

Opal surprised forecasters by growing rapidly from a minimal hurricane on Tuesday to a dangerous category four storm as it swirled over the warm waters of the Gulf of Mexico.

Its maximum sustained winds surpassed those of the deadly Hurricane Andrew, which wrought destruction on

south Florida in 1992. The national hurricane centre issued a hurricane warning from Mobile, Alabama, to Anclote Key, Florida.

Although forecasters were unable to pinpoint where Opal was most likely to roar ashore, residents of the Florida Panhandle were braced for what may be the third hurricane of the season to strike them. Allison limped ashore near Apalachicola Bay in June with barely hurricane-strength winds, and Erin struck in early August, causing \$12m in damage to the Pensacola area.

It seems there's something missing from telecom strategies: the local



At Globalstar, we believe that in rolling out a mobile satellite network to the world, there's no need to reinvent the wheel.

So while others seek new routes over and around existing service providers, we've decided to take a different path.

Through you. With you. As partners.

Globalstar uses only your gateways. So in effect, it becomes your system. Enhancing your ability to extend telecommunications to anyone. Especially in areas where there's

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missing
ps: the

INTERNATIONAL COMPANIES AND FINANCE

EUROPEAN NEWS DIGEST

Sales rise fails to lift Saga Petroleum

Saga Petroleum, Norway's largest independent oil company, yesterday unveiled a 14 per cent fall in pre-tax profit, from Nkr1.4bn to Nkr1.2bn (\$190m) for the eight months to August 31. The figure was struck on sales of Nkr4.2bn, against Nkr3.9bn. Operating profits were Nkr1.3bn compared with Nkr1.01bn. Net profit of Nkr352m, down from Nkr521m, worked out at earnings per share of Nkr2.7 against Nkr4.1.

The company said oil sales volume for the period was 25.3m barrels compared with 23m a year earlier. The average sale price was Nkr109, down from Nkr111 in the first eight months of 1994.

The fall was mostly attributed to a one-off Nkr100m loss on extraordinary items, compared a gain of Nkr350m a year earlier, when Saga enjoyed positive currency effects on its dollar debt and capital gains on its sale of shares in Elkem.

AFS News, Oslo

IBM in Swedish venture

IBM of the US said yesterday it was setting up a joint project with the Swedish software group IBS. The idea is to produce commercial applications of the emerging object-oriented technology which aims to achieve cheaper and more efficient software development.

Object orientation is a new system for writing software based on the creation of different application components which can be run in different computer environments. The components can be fitted together like building blocks - or detached - to make customised systems for users.

IBM said the venture with IBS, in which IBM is a 10 per cent owner, would be based at IBM's laboratory at Boeblingen in Germany. "This is one of IBM's most important development projects within the software area," said Mr Steve Carter, IBM manager of application frameworks. IBM is spending some \$25m on developing its object-oriented technology strategy.

Rugh Cornegg, Stockholm

Danzas sells travel division

Danzas Holding, the Swiss freight forwarding group, is selling its travel division to fellow Swiss travel groups Kuoni Reisen and Imholz, a unit of retailer Grands Magasins Jelmoli.

Danzas said it wanted to focus its business on its core freight activities.

It said Kuoni was buying all the shares in the travel division, Danzas Reisen, retroactively effective as of January 1 1995. Kuoni will take over 30 Danzas travel offices, mainly in the business travel sector, for integration into its own business travel section. Imholz will buy 18 other Danzas offices, mainly active in holiday sales, for its own strategic focus on tourism travel. Danzas said its French travel unit, Danzas Voyages (France) was not part of the sale and that it was seeking a separate solution there.

Reuters, Zurich

Swiss Re, CS Holding expand

Swiss Re, the world's second largest reinsurer group, and CS Holding, the financial group built around Credit Suisse, have established two funds in Bermuda to make equity investments in insurance companies worldwide. They have provided \$500m in equity for the two closed investment partnerships, Securitas Capital Partners I and Securitas Capital Partners II, as a step to participating in a global insurance merchant banking programme. The funds are part of a strategic alliance agreed in December.

Jan Rodger, Zurich

Weakness on UK side holds back UAP

By Andrew Jack in Paris

Union des Assurances de Paris, the French insurance group, has reported net income down 5.5 per cent to FF806m (\$164.1m) for the first six months of the year.

A decline in capital gains from the sale of assets compared with the first half last year pushed down income in spite of flat sales, at FF81bn.

Life assurance progressed in all continental European markets - growth was particularly strong in France - but turnover in the division fell 8.4 per

cent, largely because of the negative result in the UK, accentuated by a worsening in exchange rates.

Sun Life, the UK subsidiary of which it obtained full control earlier this year, suffered from weak conditions, which UAP said was hurting the entire UK life insurance market.

Non-life business turnover across the group rose 7.4 per cent, or 2.5 per cent in constant terms, before taking into account the consolidation of Provincial, the UK company acquired and integrated from

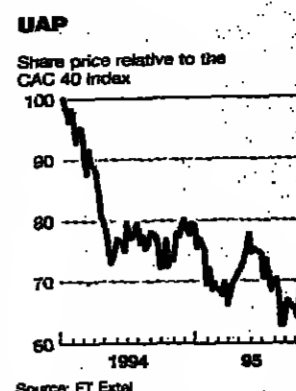
the start of this year.

Net income from all insurance activities rose 7 per cent to FF1.8bn. Banking activities sharply improved, with a FF438m loss in the first half last year converted into a profit of FF61m. UAP said Banque Worms was continuing its restructuring in line with its budget.

A sharp drop in capital gains turned a net income of FF142m in the holding company last year into a loss of FF454m. Amortisation charges rose FF66m to FF757m. UAP said there had been

continued improvement in its technical results in non-life business, and in its efforts to reduce the costs of intermediation in both life and non-life business. However, it stressed that the volatility of the financial markets - notably in France - made implementing its policies and improving results difficult.

In a veiled reference to the extraordinary provisions made last week by rival Assurances Générales de France, Mr Jacques Friedmann, chairman, said UAP had no need to make similar adjustments.



Source: FT Index

Orkla lifts eight-month earnings to Nkr1.4bn

By Christopher Brown-Humes in Stockholm

Orkla, the Nordic region's biggest food and drinks producer, has announced a 44 per cent jump in pre-tax profits from Nkr977m to Nkr1.4bn (\$222m) in the first eight months of 1995.

The Norwegian group has just completed a SKR4.25bn purchase of the food operations of Volvo, the Swedish vehicle manufacturer, while entering a joint venture with Volvo combining their beverage activities.

The agreements have been modified to meet the concerns of competition authorities in the European Commission, Norway and Sweden. All authorities have now given the deal their blessing.

Profits rose in spite of a fall in operating revenues from Nkr13.36bn to Nkr13.25bn following disposals. Operating profits climbed from Nkr918m to Nkr1.15bn, helped by a Nkr114m capital gain.

The group's operations showed a stronger trend in the second four months, helped by shifts in product mix and efficiency improvements within beverages. Operating profits in this period rose from Nkr629m to Nkr715m and pre-tax profits from Nkr678m to Nkr811m.

Procordia Food and Abba Seafood, Volvo's food businesses, will be included in Orkla's figures from October.

Banque Directe 'content' with start

By Andrew Jack

Banque Directe, the French telephone bank owned by the Paribas group, yesterday announced it had recruited nearly 16,000 customers in its first year of operation, triggering optimism about the potential for broader applications of providing financial services by telephone in the country.

Mr Bernard Aubergier, chairman of Banque Directe and of Crédit du Nord, a Paribas subsidiary, said: "We are very content. This is in line with our predictions. The lesson is to produce a simple product that responds to clients' needs."

Banque Directe had 15,878 clients by the end of September, and should have 20,000 at the end of this year and at least 40,000 by the end of 1996. Mr Aubergier said he was still aiming for profitability within the next five years.

The company said the number of customers was in line with those recruited by First Direct, the UK telephone banking group owned by Midland Bank, during its first months of operations. This was in spite of scepticism that a similar rate of uptake could be achieved in France.

However, Mr Etienne Pflimlin, chairman of Crédit Mutuel, the French mutual bank, claimed yesterday that the number of customers was below the level that Banque

Directe had predicted when it launched its service in September last year.

Ms Claude Gasné, managing director of Banque Directe, said clients' deposits ran to several hundred million francs, and the average amount held in accounts was 1.5 times the banking French average.

She said the company had broadened its initial range of services by about 10 to 40 - still far fewer than high street banks, in a deliberate attempt to focus on the options most demanded by clients. It now employed 77 people.

Other services were planned, and the bank was experimenting with the use of video-telephones and a range of multimedia applications.

Banque Directe had initial share capital of FF100m (\$20m), and is 5 per cent owned by Crédit du Nord and 95 per cent by Compagnie Bancaire, two subsidiaries of Paribas. It spent FF40m during its first year on advertising, and two weeks ago launched a renewed publicity campaign which expected to cost FF35m.

Among the company's clients, the average age is 35; 65 per cent are men and 63 per cent come from professional classes. Half live in Paris and most in urban areas. About 60 per cent said they were very satisfied with the service and only 1 per cent had decided to close their accounts.

Crédit Mutuel enjoys solid growth in deposits, loans

By Andrew Jack

Crédit Mutuel, the mutual which is France's fifth largest banking institution, yesterday reported strong growth in deposits and loans during the first eight months of the year.

The group does not provide detailed interim financial information. However, it said total deposits had risen 8.5 per cent to FF475.6bn (\$96.9bn) in the period to August 31 this year.

Banking deposits rose 11.7 per cent to FF320bn, and revenues from the sale of financial investment products by 2.3 per cent to FF155.8bn. Loans rose 8 per cent to FF233.8bn.

At the end of August, 28 per cent of deposits were held in Livret Bleu, a savings account which carries tax deductions,

and 33 per cent in special accounts designed for future mortgage borrowers. Among its loans, 45 per cent were for house loans, 25 per cent for business and 18 per cent for consumer borrowing.

For 1994, Crédit Mutuel reported net income of FF17.2bn, after taking provisions against doubtful debts of FF1.4bn. It had a solvency ratio of 15.9 per cent.

Mr Etienne Pflimlin, chairman, said his objective was to make the bank the primary one for its customers, in a country in which many individuals hold accounts with a range of different banks. He said the bank was considering launching a telephone banking service, but no final decision had yet been taken.

Plugging in to electronic banking

Germans are moving quickly into high-tech, non-branch services

Germany's banks are up to something new. In a country with one of the world's most dense banking networks, they are tempting customers with services which have no branches and few staff and rely on technology rather than personal contact.

Electronic banking is taking off in Germany, driven by demand and cost pressures. While German banks have far to go to match the penetration of direct banking in the US and UK, they are proceeding faster than competitors in continental Europe.

All big German banks have some form of non-branch service, mostly involving telephones but with personal computers gaining in importance for current account and discount broking business. If Microsoft's Windows 95 operating program stimulates home computer use, electronic banking could receive an extra impetus.

"It's very important that software is developed which overcomes people's hesitancy about new technology," says Mr Heinz-Jörg Platzeck, a director of Dresdner Bank.

Intuit, a US rival of Microsoft, is helping to provide just that. It is talking to banks about using its Quickco financial software to facilitate customers' digital access to their networks. Banks have different online systems and are likely to give customers Quickco - a best-seller in the German software market and adapted for use with leading banks - or sell it to them cheaply.

Mr Dieter Neujahr, central European director of Intuit, which has operated in Germany since mid-1994, says there are about 300,000 Quickco users in Germany and the number is rising fast. "It has just been sucked up by the market. Most people say they want it for home banking."

First off the mark in Germany with direct banking was Commerzbank. It began Comdirect with share capital of DM50m (\$34.7m) in February to woo customers wanting to carry out deposit accounts in investment and other

transactions quickly and cheaply without advice. Citibank of the US is also starting a direct banking service in Germany.

However, a bigger push came with the launch on September 25 of Deutsche Bank's Bank 24, its direct bank for a whole range of day-to-day banking and stockbroking services. Its target is 500,000 customers in four years, of which it hopes about 80 per cent will come from outside the parent bank. Bank 24, with capital of DM120m, will be based in Bonn and employ about 500 people.

Analysts estimate its promotional campaign could cost up to DM50m, with the aim of attracting as many private customers to the new service as possible to gain cost advantages. "What they hope to achieve, if they get 500,000 customers, is a cost base well below the competition," says Mr Andreas Schmitt, analyst at Barclays de Zoete Wedd in Frankfurt.

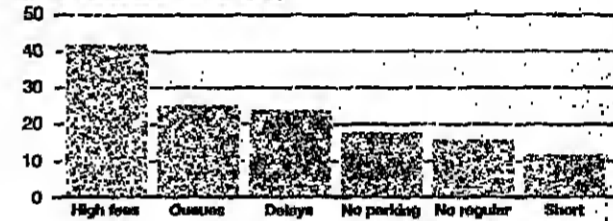
He calls the move to electronic banking "a sign of the sharp pressure on margins from all sides which banks are attempting to combat as best they can". Profits on basic lending and deposit business have been squeezed and banks want to trim their costly branch networks and use them more efficiently.

"Banks face a huge shake-up," says Mr Berot Weber, a director of Comdirect, which is expanding its services. "It will be evolution, if not revolution. The age of home banking is upon us." Comdirect will be accessible by PC next year, when it plans to be on the Internet, the worldwide computer link-up. Bayerische Vereinsbank, intending to start a direct bank in 1996, has linked with Microsoft's Quickco.

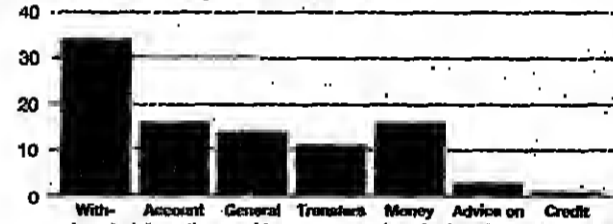
Comdirect, based near Hamburg with 120 staff, has about 23,000 customers and plans to double this by the year-end. It aims for 250,000 customers by 2000 and then to be in profit. Mr Weber says only 15 per cent of Comdirect's customers come from Commerzbank. Many come from small savings banks.

Banking behaviour

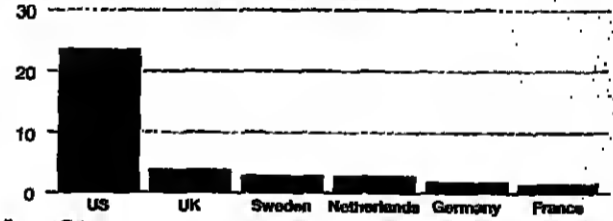
German dissatisfaction criteria, %



Reasons for Germans going to the branch, %



Transactions executed over the telephone, %



"It was an advantage to be the first," he says. But the start-up of Bank 24 and others, while opening up the market, will make it harder and costlier to attract new business.

German banks estimate the potential market for direct banking is about 6m people, based on the experience in the US and UK. Younger people, less wedded to traditional-style banking and more in tune with technology, are a particular target. "One of the banks' aims is to use electronic banking to try to get younger, more up-market customers," says Mr John Leonard, banking analyst at Salomon Brothers. About 30 per cent of German households have PCs.

At Dresdner Bank, which does not have a direct bank but has not ruled one out, customers can choose which mix of in-house investment services they wish to use remotely, by telephone or via PC. They can dispense with advice and save half or more of the transaction costs.

"The intention is to improve customer service while freeing branches from routine activity, allowing more focus on advisory services," Mr Leonard says.

This is the aim of all big banks in a country where branch density is nearly twice as high as in the US or Japan. "We have to use technology to meet the needs of younger customers who are familiar with computers, as well as continuing to provide good advice to clients who want personal contact," says Mr Platzeck.

Thus, while new forms of banking will absorb much of the banks' attention, other forms of service will not disappear. "It would be a strategic mistake to try to force traditional customers to use new technology," he says. But as the activities of German banks show, the pace of electronic, home, remote or virtual banking - call it what you will - is hotting up.

Andrew Fisher

All of these securities having been sold, this announcement appears as a matter of record only.

September 1995

6,182,113 Shares

The Carbide/Graphite Group, Inc.

Common Stock

1,075,150 Shares

PaineWebber International

Lazard Capital Markets

The Robinson-Humphrey Company, Inc.

This tranche was offered outside the United States and Canada.

5,106,963 Shares

PaineWebber Incorporated

Lazard Frères & Co. LLC

The Robinson-Humphrey Company, Inc.

CS First Boston

Deutsche Morgan Grenfell

Dillon, Read & Co. Inc.

Donaldson, Lufkin & Jenrette

A.G. Edwards & Sons, Inc.

Goldman, Sachs & Co.

Merrill Lynch & Co.

Oppenheimer & Co., Inc.

Prudential Securities Incorporated

Schroder Wertheim & Co.

Smith Barney Inc.

Arnhold and S. Bleichroeder, Inc.

Fahnestock & Co. Inc.

Janney Montgomery Scott Inc.

Ladenburg, Thalmann & Co. Inc.

McDonald & Company

Raymond James & Associates, Inc.

Sutro & Co. Incorporated

Doft & Co., Inc.

Gordon, Haskett Capital Corporation

Parker/Hunter

Pennsylvania Merchant Group Ltd

This tranche was offered in the United States and Canada.

CREDIT LOCAL DE FRANCE
FRF 300,000,000 -
Reverse Floating Bonds
due 2003

Bondholders are hereby informed that the rate for the first period of interest has been set at 4.07392 % and is payable as from April 1st, 1996.

The interest for the coupon N° 5 is for the period from October 1st, 1995 to March 31st, 1996 (inclusive) and the price for the coupon N° 5 is FRF 407.39 for the FRF 100,000 Notes and FRF 4,073.93 for the FRF 100,000 Notes.

The Fiscal Agent

CREDIT LYONNAIS

MURRAY UNIVERSAL
Securities Inc. (a subsidiary of Capital Markets)
Registered office: 11111 Lauenburg
Commercial Register No. 201

The shareholders of Murray Universal Securities Inc. have been informed that the net assets of Murray Universal Securities Inc. have become less than US \$100,000 and that the board of directors of the Company has therefore decided at the board meeting held on 11th August 1995 that, in accordance with the relevant provisions of the articles of incorporation and the Bylaws of Murray Universal Securities Inc., all shares outstanding in Murray Universal Securities Inc. will be redeemed at the net asset value to be calculated on 11th November 1995.

Estimated liquidation expenses have been reflected in the net asset value calculated on 11th November 1995. Shareholders are informed that they can ask redemption of their shares until 31st November 1995 and holders of shares on that date may expect to be the liquidation proceeds to be paid in their own hands or to be paid to them around 21st December 1995.

Shareholders may, for any further information, contact the Company at its registered office in Luxembourg.

The Board of Directors

Carrefour

SALES, TAXES INCLUDED AS OF SEPTEMBER 30, 1995

	September 95 (in FF millions)	Sept. 95 Sept. 94	9 months ended Sept. 30, 1995 (in FF millions)	% compared Sept. 95 Sept. 94
GROUP SALES	14,126	110.0	117,860	8.3
FRANCE	8,644	8.0	72,260	5.9

33 stores were opened in September: 26 in France (120,000 square feet), 1 in Brazil (100,000 square feet) and 6 in Spain (100,000 square feet). At the end of September 1995, the Group operates 236 hypermarkets in the world, 117 of which in France.



All of these securities having been sold, this announcement appears as a matter of record only.

U.S. \$2,000,000,000

MBL International Finance (Bermuda) Trust

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and unconditionally guaranteed by,*



The Mitsubishi Bank, Limited

Financial Advisor to the Bank is Mitsubishi Diamond Securities Co., Ltd.

Co-Global Coordinators

MORGAN STANLEY & CO.
Incorporated

MITSUBISHI FINANCE INTERNATIONAL PLC

\$800,000,000

This portion of the offering was offered outside the United States and Canada by the undersigned.

MITSUBISHI FINANCE INTERNATIONAL PLC
GOLDMAN SACHS INTERNATIONAL

MORGAN STANLEY & CO.
International
SBC WARBURG
A Division of Swiss Bank Corporation

BANK OF TOKYO CAPITAL MARKETS LIMITED	CS FIRST BOSTON	MERRILL LYNCH INTERNATIONAL LIMITED	NIKKO EUROPE PLC	UBS LIMITED
BARCLAYS DE ZOTTE WEDD LIMITED	COMMERZBANK AKTIENGESSELLSCHAFT	DAIWA EUROPE LIMITED	DEUTSCHE MORGAN GRENFELL	
DRESDNER BANK <i>Aktiengesellschaft</i>	IBJ INTERNATIONAL PLC	LEHMAN BROTHERS	NOMURA INTERNATIONAL	PARIBAS CAPITAL MARKETS
SALOMON BROTHERS INTERNATIONAL LIMITED		SOCIETE GENERALE	YAMAICHI INTERNATIONAL (EUROPE) LIMITED	

\$1,200,000,000

This portion of the offering was offered in the United States and Canada by the undersigned.

MORGAN STANLEY & CO.
Incorporated

GOLDMAN, SACHS & CO.
LEHMAN BROTHERS

THE NIKKO SECURITIES CO.
International, Inc.

MERRILL LYNCH & CO.
SALOMON BROTHERS INC

BEAR, STEARNS & CO. INC. **CS FIRST BOSTON** **DEAN WITTER REYNOLDS INC.** **SMITH BARNEY INC.** **UBS SECURITIES INC.** **S.G. WARBURG & CO. INC.**

INTERNATIONAL COMPANIES AND FINANCE

Bank staff comments 'point to client exploitation'

Fresh evidence stirs P&G row with Bankers Trust

By Richard Waters
in New York

The increasingly bitter case between Bankers Trust and Procter & Gamble over two failed derivatives trades has taken an extra twist with the unsealing of evidence which had been filed by both sides in the federal court.

Foremost among the evidence listed by P&G are comments made by Bankers Trust employees which, it claims, point to an "atmosphere and corporate mentality" which has led the bank to exploit several customers.

Prominent among these comments is by Mr Kevin Hudson, a managing director of BT Securities and the executive most closely involved in the two disputed trades with the consumer products giant. Many of the comments were made to Ms Alison Bernhard, another BT trader.

The two, who were engaged at the time and have since married, talked over the telephone, enabling their comments to be recorded.

This was in spite of the fact that they sat only several feet apart on the bank's New York trading floor.

At one point, talking about one of the leveraged derivative trades conducted by P&G, Ms Bernhard asks: "Do they understand that? ... What they did?" Hudson: "No," Bernhard: "They didn't?" Hudson: "No. They understood what they did but they don't understand the leverage, do they?"

At another, Ms Bernhard suggested that the company "would never be able to know how much money was taken

out of that". Mr Hudson replied: "Never, no way, no way. That's the beauty of Bankers Trust."

At one point a bank executive is quoted as saying that "what a bank can do [for its clients] is get in the middle and rip them off," while another says: "Funny business, you know? Lure people into that calm and then just totally fuck them."

One bank official described comments by Mr Hudson and other derivatives salespeople as "crass, embarrassing and

What a bank can do [for its clients] is get in the middle and rip them off

Bankers Trust executive, according to evidence filed in the federal court

stupid". The bank added that it did not "condone any disrespectful or inappropriate attitude toward clients," but that this did not detract from its claim that P&G was not misled about the contracts it bought.

It is not only Bankers Trust whose senior executives are put on trial by the mountain of evidence released on Tuesday. Procter & Gamble was also thrown onto the defensive by evidence which appeared to

contradict its claims that it was kept in the dark about the risks involved in the trades.

In the transcript of one telephone conversation between the Bankers Trust and Mr Dane Parker, a P&G employee, the bank's salesman outlines the nature of an interest swap P&G is proposing to buy. Mr Parker replies: "All right, I can do that too. [Pause] Yeah, other than that, I like this, I like the bet."

The evidence marshalled by Bankers Trust also suggests that P&G has allocated blame internally for its losses. Among evidence released were handwritten notes from Mr Edwin Artzt, formerly P&G chairman and chief executive, criticising Mr Erik Nelson, chief financial officer, and Mr Raymond Mains, former treasurer, for their part in the affair.

Of Mr Mains, Mr Artzt notes: "Didn't penetrate - didn't ask the right questions. Simply went to sleep." Mr Mains took early retirement last year, a course of action suggested by the company, Mr Artzt says.

Mr Nelson, who remains P&G chief financial officer, "made several basic mistakes". Among these, he "failed to tell me until April 1 when it was all over," according to Mr Artzt's notes.

His punishment was to be censured in front of the board, and to forego his bonus, the documents reveal.

P&G said the evidence was being used as a "smokescreen" by Bankers Trust to obscure its own responsibility. "If we thought that P&G employees were to blame, we would not have filed the lawsuit against Bankers Trust," P&G said.

Complaint says Sandoz lost \$78.5m in deals

By Ian Rodger in Zurich

Sandoz, the Swiss pharmaceuticals and nutrition group, apparently lost \$78.5m in sophisticated derivatives transactions arranged two years ago by Bankers Trust, the US investment bank.

The information emerged in an amended complaint submitted to a US court by Procter & Gamble, the US household products group, for losses of almost \$200m it suffered in transactions with Bankers Trust.

Sandoz confirmed yesterday it had had a "business dispute" with Bankers Trust. It said the dispute "has now been settled", but the terms and conditions of the settlement were confidential.

According to P&G's complaint, Bankers Trust "misrepresented or omitted material information in its dealings with Sandoz during the course of Sandoz's transactions in complex leveraged derivatives".

In particular, from the beginning of 1994, bank officials provided Sandoz with values that "significantly understated" the magnitude of the company's loss position in a constant maturity swap deal, the complaint said.

It alleged that on February 22 1994, a Bankers Trust official discovered that the bank's hedge of the swap had been misbooked, and that the bank did not have the protection that he thought it had.

The official then allegedly encouraged Sandoz to reduce the notional amount of the swap. On the bank's advice, Sandoz amended the swap nine times from February 23 until May 6, apparently believing it was in a partnership with the bank. It was not told that the bank was taking significant fees for each of these changes.

"As of May 9 1994, Sandoz had spent over \$25m in an effort to manage the CMT swap... On May 9 1994, Sandoz decided to terminate the CMT swap and agreed to pay defendants an additional \$88.4m to do so," the complaint said.

Chile pipeline battle intensifies

By David Pilling
in Buenos Aires

The battle between two consortia to build a gas pipeline between Argentina and Chile heated up yesterday. Both projects claimed they would go ahead, in spite of industry fears that Chile's energy market was not large enough to sustain two pipelines.

"We will build our pipeline," said Mr Ewell Muse, president of TransGas, a consortium led by Tenneco of the US and British Gas. "If they build theirs, there will be two pipelines. What they do is their business."

"Our expectation is that only one pipeline is going to be

built, and we've already started," said Mr Edgar Buzzalino, marketing director at Nova Corp, which is leading the rival project.

Nova had signed construction contracts and pipeline was already being manufactured, he said.

TransGas, whose 800km pipeline is expected to cost \$690m, intends to start construction next May.

The rival GasAndes project, which follows a more direct route to Santiago by crossing the Andes mountain range at a higher altitude, must begin construction this November to meet its planned 1997 start-up date. Nova expects its project to cost \$285m.

Mr Muse said that if a price

war resulted from oversupply, "our clients are in a better condition to weather the storm because they have no other generating capacity in Chile."

TransGas has signed supply contracts with US generators Southern, Entergy and InterGen, which have agreed to build power stations with a combined capacity of 1,400MW, representing 45 per cent of TransGas's projected supply.

Nova rejected suggestions that its main clients, Chile's largest generators Chilgener and Endesa, would suffer more in a price war.

"How can they (TransGas) weather any storm if their capital costs are more than double ours," said Mr

Buzzalino. "It doesn't make any sense."

Mr Muse said TransGas had also signed letters of understanding with 190 industries in central Chile, representing between a further 45 per cent and 50 per cent of gas supply. TransGas would spend \$80m on converting these industries to gas.

"We are very confident that they will convert since we are paying for it," he said, adding that letters of intent would be converted into contracts within five months.

Mr Muse said TransGas had hired Chemical Bank to organise financing, of which 70 per cent would be debt, in time to begin drawing down funds next May.

New chief brings YPF into shape

The next challenge is the group's debt-ridden Maxus unit, writes David Pilling.

Mr Nels León believes he has lived in the shadows too long. President of YPF, Latin America's largest private oil group, he is keen to underline his role in transforming the Argentine company from a "fat man" weighing 500 kilos into an athlete able to run the 100 metres in nine seconds flat.

That transformation, which saw the company move into profits as it cut staff from a bloated 50,000 to below 6,000, is generally associated with the late Mr José Estenssoro, the YPF president who died in an air crash last May.

However, Mr León, whose subsequent promotion from the number two slot raised some eyebrows, is adamant the new look YPF is as much his creation as that of his predecessor.

"We worked shoulder to shoulder for eight years... he and I laboured as one. And together we achieved this transformation, this restructuring, this privatisation," says Mr León.

He says the two men changed the culture of a state-owned company that had "generators and bakers on its payroll" into a "business able to compete with the Shells of this world".

"It had long been my dream," says Mr León, often regarded as a technician rather than a visionary, "to bring this transformation about. YPF was a sacred animal. We had to rid it of this concept of sovereignty and turn it into a commercial business."

However, Mr León now faces the challenge of persuading sometimes sceptical institutional investors that he is the man to carry that process forward.

In particular, he must convince them he knows what to do with Maxus, the debt-laden US-based oil and gas company acquired by YPF for

almost \$800m earlier this year. In July, he appointed Mr Roberto Monti, an Argentine, as Maxus chief executive, with orders to cut costs and raise efficiency.

"Maxus has lots of talent, but needs better management," says Mr León, who regards the company as "a short cut" to YPF's international ambitions.

Without Maxus, "we realised this would take 10-15 years". The aim will be to maximise profits from Maxus' stakes in Venezuela, Bolivia and Ecuador. Mr León believes Maxus' Venezuelan interests in the Quiriquiri oil deposit have "great potential".

As well as "re-activating" existing wells, YPF will undertake new exploration in Venezuela where a relatively marginal deposit can be as rich as a core field in Argentina.

Stakes in Indonesia, where Maxus has big deposits in Sumatra and Java, as well as gas interests in the US, could be sold, says Mr León, depending on the outcome of a five-year strategic plan being drawn up.

In Argentina, Maxus technology will be used to explore "frontier areas" which had stretched YPF's technical capacity.

YPF may bid for South Atlantic blocks in conjunction



Nels León: Maxus 'needs better management'

"There are 24 sedimentary basins in Argentina, only five of which are in production. The knowhow that Maxus has acquired internationally can help us to incorporate the other 19," he says.

Maxus technology could also be employed in disputed waters around the Falkland Islands, where YPF is almost certain to explore following the recent signing of an oil co-operation agreement between the UK and Argentina.

YPF may bid for South Atlantic blocks in conjunction

with British Gas with which it has signed a letter of understanding. The Argentine group has already drilled in the San Julián basin bordering on Falkland waters.

The well was dry, but Mr León says it provided valuable data. "We know there is a sedimentary basin (around the islands) and that there are sediments. What we don't know is if there is accumulation. To find that out, we must drill."

If competition around the Falklands intensifies Mr León has shown he is prepared to play tough. He has sought a court injunction against a consortium, led by Canada's Nova Corp, which is aiming to build a rival gas pipeline from Argentina to Santiago in Chile. YPF, which is part of a pipeline consortium with British Gas and Tenneco of the US, claims Nova's project does not have the necessary legal authorisation to begin construction in November as planned.

However, Mr Edgar Buzzalino, marketing director at Nova, says: "We believe YPF's claim doesn't have any merit. It's not going to work."

Mr León says YPF's project, which will supply gas to southern Chilean cities as well as Santiago, can provide gas through a dedicated pipeline for 30 years, while Nova cannot guarantee supply.

Mr Buzzalino maintains Nova's clients are confident that the gas supply will not be a problem. Whether or not Nova begins construction, "we are going to go ahead," says Mr León. This, in spite of suggestions that Chile's energy market cannot sustain both projects without a slump in electricity prices.

Competition, he says, is what the new, lean YPF likes best.

Smurfit 'knew nothing of losses'

By Alison Maitland

Jefferson Smurfit Corporation, the US arm of the Irish paper and packaging group, said yesterday it knew nothing about the losses of \$2.4m which P&G claimed it had suffered on derivatives trades with Bank-

ers Trust. "We're dealing with something P&G believes to have affected us. That's new to us," said the company, which is based in St Louis, Missouri. "We're in an awkward position of being part of a lawsuit we did not bring."

It said the company was

studying the P&G documents and re-evaluating its position. He confirmed that it had bought derivatives contracts through Bankers Trust.

Jefferson Smurfit Corporation is 46.5 per cent owned by Dublin-based Jefferson Smurfit Group.

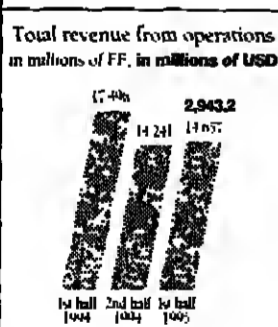
GROUPE PARIBAS

GROUPE PARIBAS FIRST-HALF 1995 RESULTS

Net income before tax of FF 2.6 billion (USD 520.7 million)

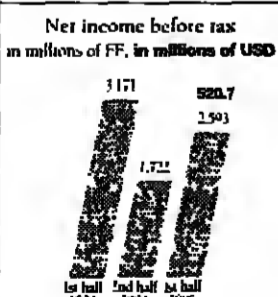
Net income excluding minority interests of FF 609 million (USD 122.3 million)

In a context hardly favorable to the activities of Groupe Paribas, the decline in net income from operations before tax in the first half of 1995 from a year earlier was limited to 18%, despite a strong drop in capital gains realized by the group, and thanks to lower risk expenses.



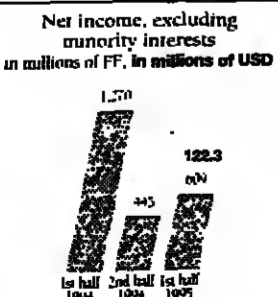
This situation reflects:

- bigger results from companies in which Paribas Affaires Industrielles holds an equity stake;
- a strong increase in the contribution from Compagnie Bancaire;
- Crédit du Nord's return to breakeven;
- mixed results from the core businesses of Banque Paribas;
- a real estate cost which remains significant, following a new decline in the French office real estate market in the first half.



Total revenue from operations declined 16% to FF 14.7 billion

Total revenue from operations amounted to FF 14.7 billion, a 16% decline from the first half of 1994, but slightly over the second half of last year. This is due to a dip in net banking revenues and fewer capital gains in the first half of 1995.



Net banking revenues declined 8.3% to FF 13.3 billion, due primarily to a smaller contribution from Banque Paribas. Lower revenues from capital markets and asset management activities at the bank were only partially offset by good performances in asset and liability management, corporate banking and

advisory services. For their part, net banking revenue contributions from Compagnie Bancaire and Crédit du Nord declined slightly.

- Other revenues amounted to FF 1.4 billion in the first half of 1995, versus FF 3 billion in the same period one year earlier. These revenues include capital gains realized on the sale of assets net of provisions on equity investments, as well as results from companies accounted for by the equity method.

For their part, results at companies accounted for by equity method advanced 51% to FF 361 million, and stem from earnings growth at the main equity holdings of Paribas Affaires Industrielles. They incorporate nonetheless a marked drop in contribution from Compagnie de Navigation Mété.

Net income before tax of FF 2.6 billion

- General and administrative expenses rose 1.6% to FF 10.2 billion.

- Provisions for loan losses and other risks declined 56% to FF 1.9 billion.

Loans outstanding to real estate professionals (excluding loans to blue-chip groups and Cogedim/Sintrim) declined 10% to FF 15.6 billion. The coverage ratio for these risks was strengthened in the first half, rising from 40% at the end of 1994 to 43% at June 30, 1995.

Excluding provisions, the group's exposition to office real estate risks amounts to FF 1.7 billion for the lending business (-3.2%) and FF 3.5 billion in transaction value (-13%) for the property development (Cogedim and Sintrim) business.

Net income including minority interests declined 25% to FF 1.6 billion, following an income tax charge in the group which fell only 6.3% to FF 1 billion.

Net income excluding minority interests of FF 609 million and stable estimated net asset value

Net income excluding minority interests amounts to FF 609 million, versus FF 1.3 billion for the first half of 1994.

The estimated net asset value at June 30, 1995 amounted to FF 483 (USD 97) per share, versus FF 481 at December 31, 1994.

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Kimberly defends plans for merger

By Roderick Oram,
Consumer Industries Editor

Kimberly-Clark said yesterday it would still face stiff competition from small independent makers of bathroom and kitchen tissues if the European Commission allowed its proposed merger with Scott Paper.

Its own brands such as Kleenex and Andrex would also meet increasing competition from supermarket own-label

products. Thus, the merged company's brands "cannot be said to hold a dominant position", Kimberly said. The EC is investigating the proposed merger because of the large market shares the two US companies have in some European countries, particularly the UK.

Kimberly's comments accompanied the first publication of its market share figures. On all counts they were much lower than those presented last

month by one of its rivals opposed to the merger.

"We're mystified," said Mr Alan Goda, a senior Kimberly executive. "We just can't conceive of numbers of that size."

Both sets of figures used data from Nielsen, the market researchers, for shares of the branded markets. However, Kimberly and its rival made their own estimates of Kimberly/Scott's share of the large own-label market.

Kimberly estimates the combined company would have 18.2 per cent of total western European tissue manufacturing capacity and a branded market share of about 22 per cent in Germany, France and the UK against own-labels' 42 per cent.

In the UK, its share of branded toilet paper would be 35 per cent, of kitchen towels 12 per cent and facial tissues 34 per cent.

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Debentures will be available in Book-Entry form only. There will be no distributive securities offered.

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This announcement appears as a matter of record only. This announcement is neither an offer to sell nor a solicitation of an offer to buy any of the Debentures.

Nomura plays lottery card to woo investors

By Gerard Baker in Tokyo

Japan's hard-pressed stockbrokers, beset by continued weakness in the country's equity market, are appealing to the Japanese obsession with gambling in an effort to revive business.

Nomura Securities, the country's largest broker, said yesterday it planned to launch a lottery tied to investment accounts, with the lure of monthly individual prizes of up to ¥50,000 (\$483).

A company spokesman said the scheme was expected to raise individual interest in equity investment, which has waned dramatically in the past five years. Other brokers said they were considering plans

for the introduction of similar accounts.

The scheme will be applied to investments in Nomura's "rutto" accounts, where customers save a fixed sum per month for investment in the equity market.

Customers who maintain regular deposits for as yet undisclosed period will be entered automatically in the monthly prize draw with the possibility of winning either cash or gift certificates. No date has been set for the launch of the lottery but the company hopes to have it in place by the end of the year.

Lotteries tied to bank or brokerage accounts have traditionally been frowned upon by Japan's conservative financial

community. The authorities have been concerned that attempts to lure customers with special offers might lead some of the more reckless institutions to offer more than they could afford. But in the past year the pace of financial deregulation has begun to open up the market to increasingly ingenious products.

Last autumn the introduction of lottery deposit accounts by a small Tokyo-based bank caused uproar among competitors, who promptly tried to have it squashed by the regulators. But it proved so popular that the authorities were forced to permit the bank to continue the account.

The product was copied by other small banks and now

seems set to spread to stockbrokers. Later this month the Japan Securities Dealers' Association will approve the operation of such schemes by its members.

But brokers seem likely to face a harder time than banks in selling the products to their customers because of the large capital risk associated with buying stocks.

Punters in the Japanese equity market have been on an extended losing streak. Stock prices peaked in December 1989, and have since fallen more than 50 per cent. Hardest hit have been millions of individual investors, many of whom have lost a large proportion of their life savings.

As a result trading by indi-

vidual investors has collapsed. Last year total trading volume was little more than a third of its level in the late 1980s. This year there has been a slight recovery in investor interest but not a likely to benefit brokers significantly.

Industry observers doubted Nomura's move would have more than a marginal impact on activity. "Individuals' trading volumes have been so low in the past few years that they have become the least profitable part of brokers' business," said Ms Elizabeth Daniels, financial sector analyst at Morgan Stanley in Tokyo. "This is an attempt to raise volumes and get profitability up a bit. But frankly I'm not holding my breath."

When breaking up is hard to do

NTT has gone on the offensive to counter growing calls for it to be split up

The past few months have seen a flurry of activity at NTT, Japan's usually slow-moving telecommunications group.

The activity portrays a company that has decided to go on the offensive in the face of the threat of being broken up when the government concludes a review of Japan's telecommunications industry next spring.

Yesterday, NTT revealed it had formed a partnership with Cable and Wireless, the UK telecommunications company, Hong Kong Telecom, a C&W subsidiary, and Itochu, the Japanese trading company, to set up a company that would market NTT's personal handy-phone systems in Asia.

On Monday, NTT said it had formed an alliance with Novell, the US company, AT&T, the US telecommunications operator, Deutsche Telekom and others to promote network security and standardisation of operations and to provide network services for business communications.

Sandwiched between the two came the disclosure that NTT was keen to enter the international telecommunications market, an area that it is prohibited from joining under Japanese law.

This year, the domestic carrier announced it would invest in a mobile and international communications company in the Philippines and participate in the construction of a telephone network in Hanoi, Vietnam.

Calls to split up the company, which has a virtual monopoly of the local telephone market in Japan, have been growing louder by the day, as the debate, by an influential advisory committee to the telecommunications authorities, gathers pace.

On Tuesday, the committee compiled a report in which it recommended breaking up NTT to increase competition in

The big slice

Fiscal year 1994-95



Source: Ministry of post & telecommunications

the market and ensure low-cost and convenient services for consumers.

In its current form, NTT is the largest telecommunications carrier in the world, with operating revenues for the last fiscal year of ¥79.1bn. AT&T, which recently decided to spin off its telephone equipment manufacturing and computing businesses, made sales of \$49bn from its telephone services business.

NTT has a 98 per cent share of Japan's local telecommunications network and about 70 per cent of the long-distance network where it has competed with three new entrants since 1986, according to Mr Eric Gan, industry analyst at Goldman Sachs, the US securities company.

The problems which arise from its size and dominance in the domestic market have been a powerful argument for breaking up NTT. The ministry of posts and telecommunications contends that greater competition is needed to ensure the Japanese public derives the full benefits of the coming information society.

NTT's competitors in the long-distance market, which was deregulated in 1985, complain that NTT abuses its control over the local network by refusing to provide them with timely and reasonably priced access to the local network.

The Japanese media has been awash with reports of public frustration over NTT's bureaucratic operations, its high prices and slowness

in introducing services.

Meanwhile, the investment community has started to look at divestiture in a positive light. The adverse impact on NTT's share price was a strong argument against a break-up in an NTT review conducted five years ago.

However, market analysts this time support a break-up on the grounds that it would increase NTT's market value.

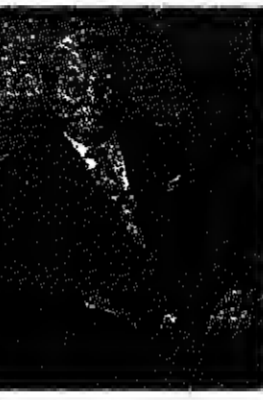
Mr Makio Imai, industry analyst at Kleinwort Benson in Tokyo, believes breaking up NTT would raise the market value of the separate companies by at least 35 per cent over NTT's current market value of ¥11,856bn (\$117bn).

A spreading consensus that the benefits of a break-up far outweigh the disadvantages has been building up amid a lack of strong opposition from key parties, apart from NTT and the company's labour union.

While Mr Ryutaro Hashimoto, the minister for international trade and industry and a leading contender to become Japan's next prime minister, has cautioned against a quick decision to split up NTT, and opposition politicians have been sympathetic to NTT's cause, the political establishment has not yet turned its attention fully to the issue.

The finance ministry, which owns some 65 per cent of NTT, says publicly that it has no say on the break-up per se but is only concerned that shareholder protection is properly accounted for.

With more voices heard in favour of, than against, a



Masashi Kojima: NTT president

break-up, Mr Masashi Kojima, NTT president, has spent a good deal of time arguing the case for keeping the company intact.

The blurring of borders between the telecommunications and other industries meant competition to NTT would not be restricted to companies in the industry but would increasingly come from other industries as well, Mr Kojima emphasised.

"The technological advances of recent years are changing the ground rules for competition. This is a frightening change," he said.

Mr Kojima has been taking action that could help counter arguments for a break-up. Last week, he made a surprise declaration that NTT would open up its local loop to any competitor at any point along the network.

The offer was intended to deflect the argument that poor access to NTT's local network was hampering the development of new services by its competitors in the long-distance market.

There have been indications that NTT is considering spinning off some of its businesses in a response to criticism that it is too big and inefficient.

Judging from the rising momentum in favour of a break-up, unless it can muster wider political and public support, NTT faces a difficult test of its new offensive over the next six months.

Michio Nakamoto

BHP plans to divest American oil assets

By Bruce Jacques in Sydney

BHP, the Australian resources group, plans to divest the bulk of its widely spread petroleum production assets in North and South America.

The company said yesterday it would sell 395 properties with combined net production to BHP of about 4,000 barrels a day of oil and 125m cu ft a day of gas. It gave no financial details.

The properties are in Texas, New Mexico, Wyoming, Louisiana, Canada and Argentina. BHP said the sale included all assets which were not core to the company's future growth strategy.

"The core assets to be retained include exploration and producing properties in the Gulf of Mexico and in Bolivia," it said. "The company also intends to pursue other exploration acreage and prospects in certain other Latin American countries and North America."

The divestment process is expected to take several months.

Foodland Associated, the Australian grocery group, has returned to the black in the year to July, turning a \$10.1m loss into a \$352.6m (\$35.2m) profit. Sales rose from \$3.35bn, to \$3.58bn, and the annual dividend is up from 12 cents to 30 cents a share.

JAL chief bullish on profits

Japan Airlines' parent current profits for the year March may exceed the company's earlier forecast of ¥3bn (\$29.6m) against the previous year's ¥2.82bn, the carrier's president, Mr Akira Kondo, said yesterday, Reuters reports from Tokyo.

The main reason for this optimism was larger-than-expected revenue in the six months to September 30, mainly in JAL's international passenger business.

Mr Kondo also said JAL would be asking the US department of transportation to reject United Airlines' complaint about JAL's Japan-Honolulu service.

United has asked for the route licence to be renewed for only 120 days or until US-Japanese talks on air cargo are concluded.

United Airlines made the complaint to the government after Tokyo's refusal to allow it to extend its flight from the US to Japan's Kansai International Airport to Seoul.

On the subject of Japanese domestic flights, Mr Kondo said he wanted complete deregulation to enhance competition. He also said that Japan would eventually need a third airport for Tokyo, in addition to existing airports at Haneda and Narita.

Reebok opens first five shops in India

Reebok International's Indian unit has launched operations in Bombay and New Delhi with the opening of five shops and has said the country could increasingly supply its sports shoes for overseas markets, Reuters reports from New Delhi.

Reebok India, which is 80 per cent owned by Reebok International with the rest held by India's Phoenix Overseas, said it had opened three retail outlets in Delhi and two in Bombay.

The joint venture said it initially expected to invest \$5m in India and to set up about 55 showrooms for Reebok sportswear in India by 1997.

Jakarta bourse seeks return to roots

The head of Jakarta's capital markets supervisory board likens Indonesia's fledgling stock market to a car engine with one cylinder.

Perhaps the stock market as a very sophisticated aircraft waiting for passengers to board before it can take off.

An updated capital markets bill, an automated trading system which can handle up to 50,000 transactions daily compared with the 3,000 manually entered transactions previously, a new trading floor in swish twin towers in the heart of Jakarta's central business district, and next year the introduction of scrippless and remote trading, have all ensured that the Jakarta stock exchange is equipped with state-of-the-art technology.

There is only one hitch: potential domestic investors have shown little interest. At a conference on the development of Indonesia's capital markets in Jakarta this week, speakers stressed the need to develop a domestic investor base in a market where two-thirds of all trading was foreign-driven.

The latest developments have already provided a significant boost to Indonesia's notoriously illiquid market. Since automated trading started, the number of shares traded daily has increased to 42m from 32m. The average value of daily trading was Rp 123bn (\$34.3m) in the first nine months of this year, up 18 per cent on last year, and is expected to reach Rp 200bn by the year-end.

However, with ambitions to be south-east Asia's biggest stock market and play a crucial role in financing Indonesia's development, further measures are needed. "In the long run we cannot

rely solely on the needs of international institutional investors," says Mr Baculus Ruru, head of the capital markets supervisory board, known as Bapepam. "Liquidity can only be achieved by having a large domestic investor base."

This week, Indonesia's parliament passed a new capital markets bill which comes into force on January 1 1996 and allows open-ended funds to operate in Indonesia for the first time. The expectation is that this will spur the development of money market and mutual funds; previously there were only closed-ended funds.

Analysts agree that the

remain high, reflecting a 10 per cent inflation rate and the premium needed to guard against political risk, which prompts the richest individuals to keep a high proportion of their assets offshore.

Nevertheless, the development of open-ended funds will make it easier for domestic private clients and institutional investors to move funds into equities and diversify their risk. "To make long-term return requirements, you need to have a mixture of investments and one of those is typically going to be equity," says Mr Michael Chambers, president director of GK Goh Ome-

traco Securities in Jakarta. The immediate challenge for the stock exchange is to change the Indonesian public's attitude to stock market investments. "[For us] the toughest by far is the educational process," explains Ms Fella Salim, a director at the Jakarta Stock Exchange.

"There is only one kind of learning curve and we're at the bottom of it."

Seniors about investing in equities are being held throughout the country. Meanwhile, the initial public offering of Telkom, the domestic carrier which will raise between \$2bn and \$3bn when it is listed in New York, London and Indonesia later this year, will offer either a bonus share or a discount for domestic investors.

The hope is also that the

Indonesia's exchange has a high-tech trading system but low domestic investment, writes Manuela Saragosa

scope for domestic investment in equities is huge and that the new law clears the way for more. According to Mr Ruru, less than 1 per cent of investors who have savings accounts currently invest in stocks.

Meanwhile, between 1989 and 1995 account balances grew from \$12bn to \$32bn and are set to rise rapidly as average incomes improve.

But Indonesia's notoriously high interest rates, currently between 11 per cent and 15 per cent, make it difficult to attract domestic funds. In 1993, for example, only 7 per cent of the total investments made by Indonesian institutions and pension funds were in equities with the majority - more than 36 per cent - going into time deposits of between six months and 18 months.

Interest rates are set to

be lowered to 10 per cent by the end of the year.

Whether the stock market develops the way officials hope will depend on whether they manage to get the interest of domestic pension funds and institutions.

"Judging from the history of other markets, those entrepreneurs who open the retail market are most likely to be the leaders 10 or 15 years from now," says Mr Mar'le Muhammad, the finance minister.

"It is in Malang and Medan, Surabaya and Jakarta, Denpasar and Bandung that the future of our capital market lies."

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September 8, 1995

This announcement appears as a matter of record only.

FINANCIAL NEWS FROM BANK OF SCOTLAND

1695
1995Bank of Scotland
1995 Interim Results

	6 months ended 31 August 1995 (unaudited)	6 months ended 31 August 1994 (unaudited)	Year ended 28 February 1995
OPERATING PROFIT BEFORE PROVISIONS	£339.8m	£321.4m	£650.0m
PROFIT BEFORE TAXATION	£261.6m	£213.2m	£449.7m
TOTAL CAPITAL RESOURCES	£3,105m	£2,534m	£2,731m
TOTAL ASSETS	£38,837m	£31,951m	£34,104m
EARNINGS PER ORDINARY STOCK UNIT	12.6p	10.9p	22.3p
DIVIDEND PER ORDINARY STOCK UNIT	2.45p	2.13p	5.82p

- Pre-tax profit £261.6 million - up 23 per cent
- Net dividend increased by 15.9 per cent
- Tier 1 and Total Capital Ratios are 6.6 per cent and 12.0 per cent respectively (February 1995) 6.1 per cent and 11.4 per cent respectively

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FINANCIAL TIMES

Lucas expects lifting of
ban on US defence workBy Bernard Gray,
Defence Correspondent

Lucas Industries, the aerospace and automotive company which has just agreed to pay \$68m in damages to the US Department of Defence over contract breaches, expects to have a bar preventing it from bidding for further DoD work lifted in the next few weeks.

The bar will remain on the company's Western Gear subsidiary, the source of the recent trouble, until production problems are resolved, but all other Lucas companies should be free to compete for Pentagon contracts.

However, Lucas is unlikely to chase substantial new work after its bruising experience. Rather, the Western Gear subsidiary is likely to be sold if a buyer can be found. That may

come as part of a wider re-orientation of the company to focus on its automotive and aerospace controls activities.

A re-orientation has been expected since Mr George Simpson, the company's chief executive, arrived from British Aerospace 18 months ago. However, substantial management time has had to be spent resolving the Western Gear problems, which have cost the company about \$170m in total.

Mr John Grant, Lucas's finance director, accepts that the company's management was to blame for its problems in the US. "It may well be that there was a poor management culture [at Western Gear] when we bought the company, but we have to acknowledge that we did not do anything about it."

Western Gear based in Utah

was bought by Lucas for \$25m in 1987, and is the sole supplier of gearboxes for the US Navy's F/A-18 fighters. The company ran into trouble because it falsified test results on the gearboxes before supplying them to the Navy.

The huge losses came as the DoD campaign to crack down on poor quality suppliers has gathered pace. Civil claims and criminal fines have mounted steadily, with the Lucas \$88m settlement being the largest to date, narrowly beating the \$86m paid by Teledyne, the US electronics company, last year.

One other supplier to the Pentagon said: "The only way to be safe is to stick to the specification and treat your staff well. Disgruntled employees can quickly become well-paid whistle-blowers in the US."

£23m buy for
Arjo Wiggins
in S Africa

By David Blackwell

Arjo Wiggins Appleton, the Anglo-French paper group, yesterday added South Africa to its expanding paper distribution business with the £23m cash purchase of Graphitec, the leading South African merchant of printing and writing papers.

Graphitec, which also operates in Botswana, Zimbabwe and Mauritius, had sales of £123m in the year to the end of August.

Mr Cob Stenham, Arjo chairman, said the deal - the fifth this year - would bring the total spent on paper merchants to £200m. The acquisitions had been highly opportunistic, and would lift gearing to 50 per cent at the year end.

However, strong growth in paper merchandising, coupled with the acquisitions, would push group turnover in the sector up by about £0.6bn to about £1.6bn this year.

Mr Stenham was confident of annual compound growth of at least 10 per cent in the Southern African market. Per capita consumption in South Africa itself was about one-seventh of the level in France, and there was "a great deal to go for."

In August the group cemented its position as continental Europe's largest paper distributor with the acquisition of Muhlebach, the Swiss paper merchant, for £116m. It is still hoping to close the gaps in its European coverage in the Netherlands and Germany.

Netto expands
into SE England

By Neil Buckley

Netto, the Danish-owned discount grocery chain, has bought the UK operations of Erteco, which runs the Ed chain of discount stores, taking it into south-east England for the first time.

The acquisition marks further consolidation in the discount sector, after the acquisition last November by Kwik Save, Britain's biggest discount grocer, of the British operations of Shoprite, the Isle of Man-based discounter. It leaves Kwik Save, Netto, and Germany's Aldi and Lidl chains as the main discount food chains in the UK.

Mr Henrik Gundelach, Netto's managing director, said his company had bought for an undisclosed sum 13 Ed stores in south-east England, and would keep all the store staff and some at head office.

"This is the launch pad for us into the south-east," Mr Gundelach said. "We already have several other stores in the pipeline."

Erteco, a subsidiary of Carrefour, France's largest retailer, said the sale was "motivated by the difficulties in achieving critical mass in this market". The company recently closed five under-performing Ed stores. Since the first stores opened in 1992, analysts have been surprised by its slow development.

The withdrawal from discounting is the second time Carrefour has withdrawn from the UK, after trying unsuccessfully to launch its hypermarket format in the 1990s.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Dividend (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
--	---------------	---------------------	---------	--------------	-----------------	----------------------------------	----------------	-----------------

Amulco Food	25 mths to Aug 12	36.3 (34.5)	1.38 (1.84)	3 (3.9)	2	Dec 1	2	6
Bank of Scotland	6 mths to Aug 31	- (1)	261.84 (213.24)	12.6 (10.9)	2.45	Dec 15	2.13	5.82
Barclays	6 mths to June 30	82.1 (80.7)	13.16 (10.2)	6.4 (11.3)	3.5	Jan 5	3.5	10.35
Barrat Stewart	Yr to July 2	50.4 (40.7)	3.97 (4.18)	4.65 (5.2)	3.3	Nov 20	3.2	5
Global 5	6 mths to June 30	54 (41)	0.842 (0.715)	0.421 (0.38)	0.2	Nov 30	0.2	0.526
Grampian Holdings	6 mths to June 30	70.8 (55.8)	4.29 (3.5)	4.34 (3.88)	1.8	Nov 14	1.7	5.75
Harrods	6 mths to July 31	141.8 (128)	19.7 (16.2)	8 (4.12)	0.75	Dec 14	0.688	2.77
Healing	6 mths to June 30	565.8 (559.1)	15 (13.5)	5.8 (4.8)	4	Dec 15	4	10
Jefferies Princes	6 mths to July 31	17.4 (16.8)	0.817 (0.734)	- (1)	37	Nov 17	34	71.5
REX Clark	6 mths to Sep 30	1.35 (1.61)	0.307 (0.12)	59 (24)	4	Oct 24	-	-
REA	6 mths to June 30	48.8 (43)	0.658 (0.592)	3.7 (3.5)	1	Oct 24	-	4
United Industries	6 mths to June 30	32.6 (23.6)	1.75 (0.583)	0.831 (0.36)	0.15	Nov 22	0.1	0.32
Webcor	Yr to June 30	183.8 (218)	0.822 (1.2)	1.781 (70.14)	n/a	n/a	n/a	n/a

Investment Trusts

	NAV (£)	Attributable Earnings (£m)	EPS (p)	Dividend (p)	Date of payment	Corresponding dividend	Total for year	Total last year
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Ind Jersey	6 mths to June 30	- (1)	0.199 (0.478)	8.3 (8)	8.38	Oct 13	8.38	17.8
With Atlantic Steel	6 mths to July 31	- (1)	0.179 (0.25)	2.02 (3.71)	-	-	-	-

Dividends shown net. Earnings shown basic. Figures in brackets are for corresponding period. (f) Increased capital. (a) Adjusted for scrip issue. (b) After exceptional charge. (c) Includes 4.1p not subject to tax charge. (d) US\$ stock.

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Rustenburg Platinum Holdings Limited

Registration No. 05/22452/06 (Incorporated in the Republic of South Africa)
(Rustenburg Platinum Holdings" or "the Company")

Results of election to receive a final dividend
instead of a capitalisation award

The right of election to receive a final cash dividend instead of an award of capitalisation shares ("the Capitalisation Award") made to ordinary shareholders registered at the close of business on Friday, 1 September 1995 ("the record date"), closed at 18:00 on Friday, 29 September 1995. The closing price of Rustenburg Platinum Holdings ordinary shares on The Johannesburg Stock Exchange on 29 September 1995 was R79.50. Accordingly, the award of capitalisation shares was determined as a ratio of approximately 2.03774 new shares for each 100 shares held on the record date.

Elections to receive the final dividend of 147 cents per share in respect of the year ended 30 June 1995 were received in respect of 12 355 044 shares. Accordingly, a final dividend of 147 cents per share has been declared on 12 355 044 ordinary shares in respect of the year ended 30 June 1995, and 2 301 596 new fully paid Rustenburg Platinum Holdings ordinary shares of 10 cents each have been allotted in terms of the Capitalisation Award. The issued share capital of Rustenburg Platinum Holdings has been increased to 127 828 367 ordinary shares.

The listing of 2 301 596 new ordinary shares in Rustenburg Platinum Holdings will commence on The Johannesburg Stock Exchange from the commencement of business on Wednesday, 4 October 1995. It is expected that the new ordinary shares will be listed on the London Stock Exchange as soon as practicable.

Cheques in respect of the cash dividend/fractional entitlements and shares sold for the benefit of shareholders, as well as share certificates, will be posted to members on or about Wednesday, 4 October 1995.

Johannesburg
4 October 1995

Potgietersrust Platinum Limited

Registration No. 01/08353/06 (Incorporated in the Republic of South Africa)
(PP Rust" or "the Company")

Results of election to receive a final dividend
instead of a capitalisation award

The right of election to receive a final cash dividend instead of an award of capitalisation shares ("the Capitalisation Award") made to ordinary shareholders registered at the close of business on Friday, 1 September 1995 ("the record date"), closed at 18:00 on Friday, 29 September 1995. The closing price of PP Rust ordinary shares on The Johannesburg Stock Exchange on 29 September 1995 was R22.00. Accordingly, the award of capitalisation shares was determined as a ratio of approximately 2.36364 new shares for each 100 shares held on the record date.

Elections to receive the final dividend of 47 cents per share in respect of the year ended 30 June 1995 were received in respect of 15 704 596 shares. Accordingly, a final dividend of 47 cents per share has been declared on 15 704 596 ordinary shares in respect of the year ended 30 June 1995, and 2 507 363 new fully paid PP Rust ordinary shares of 3.5 cents each have been allotted in terms of the Capitalisation Award. The issued share capital of PP Rust has been increased to 124 292 252 ordinary shares.

The listing of 2 507 363 new ordinary shares in PP Rust will commence on The Johannesburg Stock Exchange from the commencement of business on Wednesday, 4 October 1995. It is expected that the new ordinary shares will be listed on the London Stock Exchange as soon as practicable.

Cheques in respect of the cash dividend/fractional entitlements and shares sold for the benefit of shareholders, as well as share certificates, will be posted to members on or about Wednesday, 4 October 1995.

Johannesburg
4 October 1995

MEDIOBANCA

SOCIETA PER AZIONI
HEAD OFFICE: VIA FILODRAMMATICI 10, MILAN, ITALY
PAID-UP SHARE CAPITAL: LIT. 416 BILLION; RESERVES: LIT. 3,273.7 BILLION

Notice of Ordinary General Meeting

Notice is hereby given that an Ordinary General Meeting of Mediobanca will be held at the Company's Head Office in Via Filodrammatici 10, Milan, Italy, at 10.00 a.m. on 28th October 1995 in the first instance, and any adjournment thereto at the same time and place on 30th October 1995, to transact the following business:

- 1) The Accounts for the year ended 30th June 1995, the Directors' and Statutory Auditors' Reports and resolutions thereon.
- 2) Election of Directors.

Under Article 8 of Mediobanca's Articles of Association, shareholders who have at least five days prior to 28th October 1995 lodged their shares at the Company's Head Office or at any Branch Office of Banca Commerciale Italiana, Banca di Roma, Credito Italiano or at Monte Titoli S.p.A. (in the case of shares managed by it) shall be entitled to attend the meeting on presentation of an admission ticket.

p.p. the Board of Directors
the Managing Director

CONTRACTS & TENDERS

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PETROBRAS

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NOTICE E&P 101.0.005.95.0
MARINE SEISMIC SURVEY

The Superintendence Executive Exploration and Production (SEEP) of Petroleio Brasileiro S.A. - PETROBRAS, the Brazilian oil state company is calling for seismic survey marine 2D AND 3D bids. In Brazil. Contractual conditions, written in Portuguese will be on sale for interested companies at Av. República do Chile, 85, room 1104, Centro, Rio de Janeiro, Brazil (Fax: 055.021.534-2714).

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COMPANY NEWS: UK

Rising costs squeeze Bank of Scotland

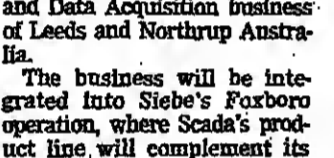
By John Gapper,
Banking Editor

Bank of Scotland disappointed the City yesterday by disclosing almost flat interim operating profits before provisions for bad and doubtful debts, with costs rising and income coming under pressure from a squeeze in margins. Pre-tax profits rose 23 per cent from £218.2m to £261.6m (£405m) in the six months to August 31. Most of the rise came from a fall in provisions from £118.6m to £85.8m, and a £23.8m gain from the sale of 50 per cent of a credit card venture.

The shares closed 7p down at 240p as analysts said they were concerned at a lack of underlying growth. "They are having to run very fast to stand still," said Mr Richard Coleman at Smith New Court.

Bank of Scotland

Share price relative to the FTSE-100 index



Source: FT Data

man said sentiment was against the bank because it did not have the cushion of capital accumulated by others.

Mr Peter Burt, the bank's chief general manager, emphasised that it did not foresee having to raise extra capital for the planned purchase of 51 per cent of Bank of Western Australia in the second half.

He believed the Tier 1 ratio of core capital to risk-weighted assets would fall from 6.6 to an acceptable 6 per cent if Bank of Scotland succeeded in placing 49 per cent of BankWest's shares with investors.

The rise in operating profits - from £221.4m to £289.6m - was "acceptable" given falls in operating profits in other UK banks. Lending to customers rose 13 per cent from £23.5m to £26.8m, helped by growth at NWS Bank, its finance arm.

Net interest income rose from £460m to £424.7m, but it was affected by a squeeze in the net interest margin.

French losses drag on Blenheim

By Geoff Dyer

Losses at its French operation caused Blenheim Group, the exhibitions organiser, to report a 32 per cent drop in interim pre-tax profits.

However the shares rose 18p to 236p as the figures were slightly ahead of analysts' expectations and after the group made positive comments about trading in France in the second half.

Pre-tax profits in the six months to June 30, which fell from £19.2m to £13.1m (£20m) were depressed by a £2.1m charge related to the closure of operations in Japan and the sale of the UK giftware division.

Turnover was £92.1m (£89.7m), down 8 per cent. However after excluding exhibitions which occur every two years, revenue from continuing business was up 7 per cent.

The group also announced that Mr John Hunt, formerly vice chairman of corporate finance at BZW, had been appointed finance director. He replaces Mr Christopher Crowcroft.

The French business made an operating loss of £3.2m (against profits of £3.4m) on revenues down at £16.6m (£22.6m).

However Mr Stefan Svenby, managing director, said that trading in the second half would "more than compensate" for first-half losses. He added that he was "delighted" with advance sales for Barmat, the November building industry exhibition which is the group's largest.

Profits from the US business fell to £4.5m (£6.9m), after the information technology show in Boston continued to lose ground.

UK profits increased to £8.4m (£5.6m) and profits from Germany more than doubled to £6.4m (£3.1m). The group had a net cash inflow of £12m, against an outflow of £29.5m last time, which helped reduce net debt from £44.2m to £30.4m. Earnings per share were 6.1p (10.8p). The interim dividend is maintained at 3.5p.

Dividend growth with low political risk

Alison Smith considers the changing advantages of the life assurance sector

Results season

Round-up

The interim results season for the UK quoted life assurance sector ended last week not with a bang but with a whimper. This was not a sign that the market was disappointed with the 8 per cent rise in the interim dividend announced by Refuge Assurance. Instead, it was simply that half-year figures produced by Refuge and some other quoted companies say little about how profitable their businesses are.

Because companies such as Refuge, Britannic and London & Manchester do not value their life funds at the half-year, these results focus on the interim dividend and on premium income.

A more complete picture of the half year came earlier in the reporting season from Prudential, the UK's largest life assurance and investment group, Legal & General, and

Lloyds Abbey Life, which is partly owned by Lloyds Bank. All three reported pre-tax profit increases and higher interim dividends.

At the Pru, pre-tax profits rose by 20 per cent to £385m, (£320m) and the interim dividend was raised 8.3 per cent. For L&G, which does not smooth its investment returns and so has more volatile results, pre-tax profits doubled to £117m, and the interim dividend increased 11 per cent.

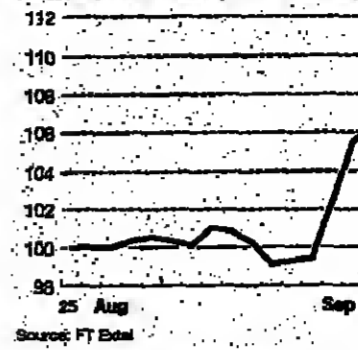
LAL saw pre-tax profits rise 15 per cent to £197.1m and raised the dividend by 7 per cent.

That dividend rise was the lowest in the sector, while the highest was the 20 per cent increase in interim dividend offered by United Friendly. This came after discussions with the government allowed United Friendly to restructure its long-term life funds, transferring surplus funds to shareholders.

Britannic and Refuge have

Life Assurance

Relative to the All-Share (FT-SE-A Index)



Source: FT Data

begun similar discussions and should underpin progressive dividend policies for the future, though in both cases this is not expected to come through for the 1995 full-year results.

The rises in dividends and profits are in sharp contrast with the generally lower sales figures reported across the life assurance and pensions sector - not just among the quoted

companies who make up only about 20 per cent of the market.

From the point of view of shareholders, it is the dividend growth that is the attraction of the quoted life companies. "This is a yield sector and the reason for investing in it is income," says Mr Trevor May, insurance analyst at BZW.

He says that the sector is supported by the combination of dividend growth unparalleled outside the utilities sector and low political risk, which the utilities are less likely to have as a general election approaches.

Mr Roman Cioodyn, insurance analyst at Smith New Court, says it is not just dividend growth that lies behind the sector's buoyancy.

He points to the emphasis put by the Pru on its earnings from assets under management which are not affected by levels of new business and could become increasingly important.

So at present, prospects for future shareholder income seem sufficiently bright to outweigh the gloom of lower volumes of sales. Even if trading conditions continue to be tough, the quoted companies look better placed to survive than some small life offices which lack critical mass or access to capital.

Aviation behind Hunting's advance

By Tim Burt

Hunting, the aviation, defence and oil equipment group, yesterday announced an 11 per cent increase in first-half profits following a restructuring of its aerospace activities.

The group, which manages the Atomic Weapons Establishment at Aldermaston, achieved pre-tax profits of £15m (£32.25m), against £13.5m, on turnover which increased from £58.1m to £55.8m.

The improvement was helped by doubled profits of £3.3m (£1.6m) in the aviation division, where the workforce was cut by 5 per cent to about 1,500.

Mr Ken Miller, chief executive, said the aircraft repair and airline interiors businesses had increased orders, but operating margins were still unsatisfactory.

The aviation division reported first-half profit margins of 3.7 per cent and a 7 per cent return on capital. "That is unacceptable; we want a

return on capital of more than 20 per cent," Mr Miller said.

Pursuit of such margins has persuaded Hunting to consider disposals in the division, which includes contract services for the Ministry of Defence, a cargo airline and business aviation services.

Mr Miller was also disappointed by margins in defence, which were unchanged at 2.2 per cent on profits of £7.2m (£7.1m).

However, an upturn is expected following the introduction of incentive targets on the management contract at Aldermaston and weapons orders for the Apache helicopter.

Increased demand, meanwhile, for oilfield services helped lift profits in that area from £7.8m to £8.5m.

Earnings per share rose 28 per cent to 5.9p (4.6p), and the interim dividend was maintained at 4p.

The shares rose 7p yesterday to 215p.

MBO set to bid £200m for most of Tarmac housing

By Andrew Taylor,
Construction Correspondent

Schroder Ventures, the private equity investor, is supporting a management buy-out regarded as the front runner to purchase the UK housing operations of Tarmac one of Britain's biggest builders.

The buy-out team led by Mr John Levering, Tarmac's former chief operating officer, is expected to bid more than £200m (£310m) for between two thirds and three quarters of the housing business. Tarmac initially would retain the

remainder. The offer is expected to value the business at about £300m, close to the net asset value at the end of this year, Tarmac has said.

Tarmac expects to sell about 6,500 homes this year, making it the country's fourth largest house builder behind Wimpey, Beazer and Barratt. Six years ago Tarmac was Britain's biggest builder, selling 12,000 homes in 1989.

The management buy-out is included in a shortlist of half a dozen "serious" potential purchasers identified by Tarmac as likely to bid for whole business.

ness. Lazard Brothers, which is advising Tarmac, is expected to send a sales memorandum providing details of the assets to the six potential bidders at the end of this week.

The shortlist is thought to include some housebuilders as well as financial institutions.

Tarmac is understood to have received about 140 expressions of interest, but has decided to concentrate initially on those likely to buy the whole business.

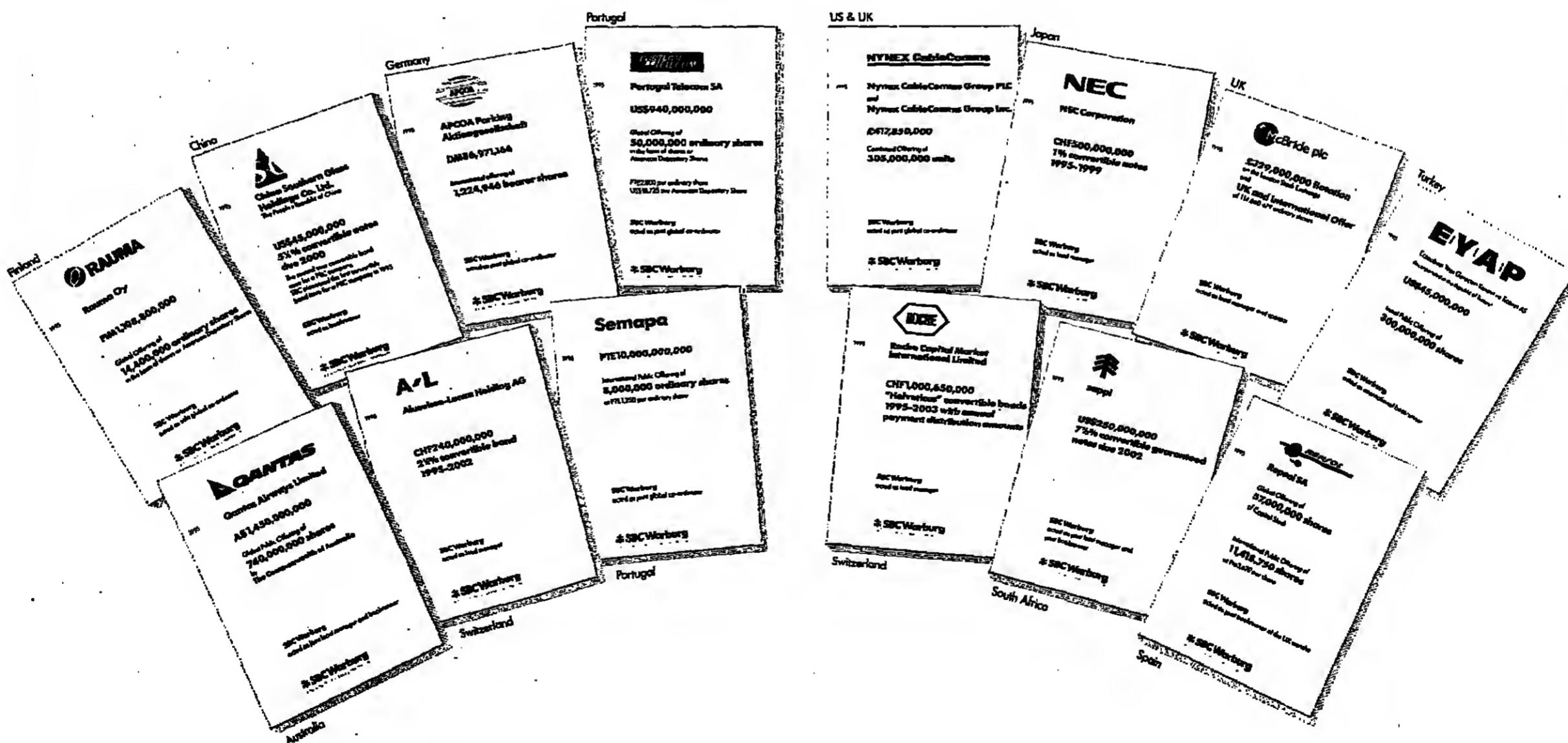
The buy-out team would expect to float the business within about three years.

Court halts Butte US actions

Shares in Butte Mining, the main activity of which is suing former managers and promoters for damages of up to £1bn, fell by 20 per cent yesterday, from 24p to 19p after the High Court made permanent an injunction preventing it pursuing in the US courts its claims against Simon Engineering, writes Kenneth Gooding.

Butte said the decision affected only four of more than 70 defendants. It would continue its action in the US against others. In addition the ruling said Butte's claims should proceed immediately in the UK and gave leave to defend and counterclaim a claim brought by the Robertson Group, a Simon subsidiary.

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COMMODITIES AND AGRICULTURE

Russian harvest heads for 30-year low

By Chrystie Freeland
in Moscow

A combination of bad weather and sharply decreased investment in the agricultural sector cut Russia's harvest to the lowest level in three decades, officials said this week. However, the Russian government appeared undecided on whether the country would compensate for the poor crop by buying grain abroad.

With the grain harvest now nearly complete, the country is set to produce between 65m and 66m tonnes of grain this year, down from 81.3m tonnes last year and the lowest level since the 1965 harvest of 66.3m tonnes. In the 1960s, before the collapse of communism, Russia generally produced between 120m and 130m tonnes of grain a year.

Other big grain producers in the former Soviet Union have also suffered poor harvests, but

nothing approaching Russia's steep drop in production. With an expected harvest of 36.5m tonnes, Ukraine has actually increased its production by 3m tonnes compared with last year, though the figure is far below 1990s levels.

Since the collapse of communism, the agricultural lobby and conservative opponents of economic reform have annually predicted a devastating collapse in Russia's agricultural production. This year, the doomsday predictions appear to have come true and with parliamentary elections less than 90 days away, the poor harvest is already emerging as a hot political issue and as a focus for widespread public discontent with the Kremlin's economic performance.

Even Mr Alexander Nazarchuk, the minister of agriculture, said that the collapse of central government financing rather than the drought which hit central

Russia this summer, was responsible for the poor harvest.

"Miracles do not happen," Mr Nazarchuk said. "Given the low levels of government support we could have predicted this harvest in the spring."

On the question of imports, Mr Alexander Zaverukha, deputy prime minister responsible for agriculture, said this week that Russia "would evidently need to buy hard wheat and those types of grain which Russia does not have enough of."

But Mr Nazarchuk said that the state did not have any money for grain imports.

Meeting austere budget deficit targets agreed with the International Monetary Fund has emerged as the Russian government's economic priority this year and the budget must not provide for centralised grain imports.

According to government

officials, Russia needs 24m to 25m tonnes of grain to feed its people and an additional 14m to 15m tonnes for livestock. Domestic grain consumption has fallen dramatically since the collapse of communism, in part because of widespread slaughtering of livestock that farmers can no longer afford to keep.

But people who rely on grain provided by the government - including soldiers and residents of Russia's remote northern territories - could suffer from the poor harvest, which has driven domestic prices of grain up to world levels and depleted state supplies.

The poor harvest has also increased the pressure on Moscow to step up funding for agriculture next year. Mr Nazarchuk said that he had already asked the Ministry of Finance to allot \$22,000m (\$4.8bn) for the sector next year.

Alaskan mine may top zinc league

By Bernard Simon in Toronto

Cominco, the Vancouver-based metals group, has begun a study on expanding the Red Dog zinc and lead mine in north-west Alaska by 30 per cent, turning the mine into the world's biggest zinc producer.

The expansion has been made possible by the discovery of a large new orebody north of the existing open pit. The discovery has doubled the mine's reserves to about 180m tonnes. A decision whether to proceed with the expansion is expected early next year.

Red Dog produced 294,400 tonnes of zinc and 46,100 tonnes of lead concentrates in the first six months of this year. Under the expansion plan, zinc output would rise to 820,000 tonnes of zinc a year. Lead production would be about 90,000 tonnes.

The new orebody has grades of 14 per cent zinc and 3 per cent lead, slightly lower than the deposit now being mined. Cominco last month disclosed the new discovery as "flat lying and amenable to open-pit mining with a low stripping ratio." The extra reserves are expected to extend the mine's life to at least 40 years.

Cominco owns Red Dog, and pays annual royalties to the NANA Regional Corporation, an agency which promotes economic development among Alaska's Eskimos. Under the agreement, NANA will eventually acquire a 50 per cent stake in the mine.

BEIP of Australia is to develop the \$450m Cannington silver-lead-zinc mine in north-west Queensland, subject to port and rail agreements and sales contracts being satisfactorily completed. Start-up is scheduled for late 1997 and it will produce 24m tonnes of silver a year in 250,000 tonnes of lead concentrate and 100,000 tonnes of zinc concentrate.

London sugar futures volume hits record level in September

By Allison Maitland

Trading volumes in white sugar futures on the London Commodity Exchange hit a record last month as fears grew of a shortage of good quality supplies from the European Union.

The exchange said yesterday that volume in the No 5 white sugar contract was rapidly catching up with its two most heavily traded contracts in cocoa and coffee.

It said 62,694 lots were traded in September, up 93 per cent on August and 95 per cent higher than a year ago. The previous record was 59,567 lots in February. About 99,000 lots were traded in cocoa futures and 89,000 lots in robusta coffee last month.

The sugar trade has become increasingly active in the market recently because of concern that high quality EU sugar, the base of the No 5 contract, may be taken off the export market and put into intervention to boost stocks after drought damaged harvests this year and last.

E.D. & F. Man, the London commodities house, said that although global white sugar supplies were plentiful, good quality EU white sugar might become more scarce.

Man has projected an EU harvest this year of 15.6m

tonnes of white sugar equivalent, not much higher than last year's 15.2m tonnes and well down on the bumper crop of 17m tonnes the previous year.

"Because a lot of sugar was taken out of stock last year, there may be a re-accumulation of stocks in member states," said Ms Angela Milton, analyst.

The London exchange also attributed the increase in sugar trade interest to volumes reaching "an acceptable level that inspires confidence." The contract, launched in 1983, had open interest - unmatched trades - totalling 27,417 lots last month, nearly twice the level of a year earlier.

ahead of the vote. New Jersey, seeking to place a prime market from New York, is believed to have to have offered the CSCE first \$17m, and more recently, \$35m to help finance the move.

CSCE management has retained the investment banking firm Rothschild to assess the value of the exchange, and will present that assessment at an information meeting today.

In a letter to members this week, Mr Laurence Molnar, chairman of the FIA, urged senior executives of futures brokerage firms to give close attention to the issue and not to delegate their CSCE vote to junior staff or floor personnel.

"The FIA continues to question whether any benefits to a move by the exchange to a separate location in New Jersey outweigh the drawbacks," the letter said. "The move destroys the synergy of common location and is likely to negatively affect interest in CSC members by the New York Community."

At stake, futures industry executives say, is the opportunity for a single, consolidated commodity exchange in New York that would provide significant cost-savings to customers and trading firms and position the market for competition globally.

Overhaul of EU fruit and veg sector planned

By Caroline Southey
in Brussels

Mr Franz Fischler, the European Commissioner for agriculture, yesterday announced an overhaul of the European Union's fruit and vegetable sector aimed at reducing over-production and strengthening the marketing capacity of producers.

"The new approach will ensure that the Ecu 1.6bn (£1.3bn) being spent on the sector is invested in the long term development of the industry rather than on the disposal of surpluses which are only of short term benefit," Mr Fischler said.

He denied that the new regime, which has been attacked by southern member states, would disadvantage anybody. The commission was "not saving money," he said. "We will have the same expenditure as in the past. We are supporting producer organisations more."

The measures go some way towards completing the reform of sectors left untouched by

far-reaching changes to the EU's common agricultural policy introduced in 1992. The commission has yet to tackle the wine sector.

The central thrust of the changes is to reduce over-production by curbing the widely criticised intervention system for fruit and vegetables, which allows producer groups to withdraw, and in most cases destroy, produce from the market when the price falls to a certain level.

Allied to this, the proposals seek to boost the role of producer organisations, which traditionally served mainly for operating the withdrawal system. "The aim is to inject support into the producer groups to make them into real producer groups and to wean them off the withdrawal system," an EU official said.

The proposals also address the EU's much-maligned system of standards for fruit and vegetable. To avoid "over interference" in the lives of citizens, Mr Fischler suggested there could be derogations for some products.

"We need minimum standards but we also need to accommodate traditional patterns of consumption," an EU official said, citing as an example the production of small strawberries in Finland.

The changes are expected to be neutral in budget terms. While the amount spent on withdrawals is projected to fall from Ecu323m in 1996 to Ecu 128m in 2001, money diverted to producer groups will be up from zero now to Ecu 257m in 2001.

Although withdrawals will continue, on the grounds that surpluses are an inherent feature of the sector because of its vulnerability to climatic conditions, a number of restrictions are spelled out.

The price paid for products withdrawn will be reduced by 15 per cent over five years - the starting point being the lowest average monthly withdrawal price in 1995-1996.

"The Commission knows that some producers grow for withdrawal. It has pitched the price low enough so that it no longer becomes profitable but

just high enough to encourage farmers to pick the harvest," an EU official said.

The second constraint on withdrawal is that producer groups will have to market 90 per cent of their produce, limiting the amount put through the withdrawal system to 10 per cent by the end of five years.

In Greece over 60 per cent of the peach harvest in 1992 and 1994 was put into intervention and over 70 per cent of the nectarines. This was also true of 35 per cent of France's apple harvest in 1992-93.

Intervention should operate as a safety net rather than as a market outlet itself," Mr Fischler said, adding that the new system would guarantee that withdrawal "is used only as a last resort."

But the success of the new system will depend on the effectiveness of producer groups. Mr Fischler proposed an "operational fund", 50 per cent of which would be financed by a levy on the traded products, and 50 per cent by public funds.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Anonymous Metal Trading)

ALUMINIUM, 99.7 PURITY (% per tonne)

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Cash	1751-62	1754-65	1754-65	1754-65	1754-65	1754-65	1754-65	1754-65	1754-65	1754-65	1754-65	1754-65	1754-65
Previous	1742-43	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75
High/Low	1742-44	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75
AM Official	1742-44	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75
Kerb close	1742-44	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75	1774-75
Open Int.	205,680	205,680	205,680	205,680	205,680	205,680	205,680	205,680	205,680	205,680	205,680	205,680	205,680
Total daily turnover	81,445	81,445	81,445	81,445	81,445	81,445	81,445	81,445	81,445	81,445	81,445	81,445	81,445

ALUMINIUM ALLOY (% per tonne)

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Cash	1510-20	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60
Previous	1515-25	1555-65	1555-65	1555-65	1555-65	1555-65	1555-65	1555-65	1555-65	1555-65	1555-65	1555-65	1555-65
High/Low	1510-20	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60
AM Official	1510-20	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60
Kerb close	1510-20	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60	1550-60
Open Int.	3,089	3,089	3,089	3,089	3,089	3,089	3,089	3,089	3,089	3,089	3,089	3,089	3,089
Total daily turnover	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082	1,082

LEAD (% per tonne)

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Cash	596.5-67.5	611-12	611-12	611-12	611-12	611-12	611-12	611-12	611-12	611-12	611-12	611-12	611-12
Previous	595.5-66.5	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11
High/Low	595.5-67.5	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11
AM Official	595.5-67.5	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11
Kerb close	595.5-67.5	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11	610-11
Open Int.	91,721	91,721	91,721	91,721	91,721	91,721	91,721	91,721	91,721	91,721	91,721	91,721	91,721
Total daily turnover	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105	5,105

NICKEL (% per tonne)

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Cash	8025-35	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60
Previous	7995-405	8025-35	8025-35	8025-35	8025-35	8025-35	8025-35	8025-35	8025-35	8025-35	8025-35	8025-35	8025-35
High/Low	8025-35	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60
AM Official	8025-35	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60
Kerb close	8025-35	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60	8155-60
Open Int.	44,526	44,526	44,526	44,526	44,526	44,526	44,526	44,526	44,526	44,526	44,526	44,526	44,526
Total daily turnover	8,414	8,414	8,414	8,414	8,414	8,414	8,414	8,414	8,414	8,414	8,414	8,414	8,414

ZINC (% per tonne)

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Cash	6285-95	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20
Previous	6285-95	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20
High/Low	6285-95	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20
AM Official	6285-95	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20
Kerb close	6285-95	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20	6310-20
Open Int.	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854
Total daily turnover	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854	18,854

ZINC, special high grade (% per tonne)

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Cash	1001-3	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25
Previous	1003-4	1028-27	1028-27	1028-27	1028-27	1028-27	1028-27	1028-27	1028-27	1028-27	1028-27	1028-27	1028-27
High/Low	1001-3	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25
AM Official	1001-3	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25
Kerb close	1001-3	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25	1024-25
Open Int.	78,086	78,086	78,086	78,086	78,086	78,086	78,086	78,086	78,086	78,086	78,086	78,086	78,086
Total daily turnover	15,183	15,183	15,183	15,183	15,183	15,183	15,183	15,183	15,183	15,183	15,183	15,183	15,183

COPPER, grade A (% per tonne)

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
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The Indian State of KARNATAKA

Agricultural state turns to microchips

The right noises have been made, but no action has followed, reports Alexander Nicoll

Information technology companies, seeking to capitalise on India's growing markets and its large pool of young talent, have made Bangalore, capital of the southern state of Karnataka, their main centre.

A cluster of companies, supplying software and computer systems to customers in India and abroad, make up what is perhaps the most globally competitive industry in the country. Though their number remains quite small and the range of their activities is still limited, the industry is acquiring depth as new companies spring up to produce software or provide other services for the computer companies which are already established.

If this process of deepening continues, Bangalore will be able to justify being called India's Silicon Valley.

However, there are many hurdles in the way of the high technology revolution, of which the biggest is the inadequacy of infrastructure and public services - a nationwide malaise from which Bangalore, even though it has a number of attractions compared with other Indian cities, has not escaped. Power, telephone lines, water supply, poor roads, traffic, road safety and lack of an international airport are all cited by business as problems.

Thousands of young computer professionals struggle along terrible roads to get to their jobs in software factories which their employers isolate from the world outside by generating their own power, leasing special telephone lines and creating work environments which are conducive to cerebral pursuits.

In Karnataka, power is the biggest problem. According to the chief minister, Mr H. D. Deve Gowda, 9,000 MW of power will be needed by the year 2000, but the state currently produces only 3,600 MW. Mains power is unreliable, so industries which depend on constant supply and voltage, as computers do, have been forced to install their own diesel-power generators.

Nevertheless, people who have made Bangalore their base have few regrets. Because the city is 920 m above sea level, its climate is more temperate than those of the other Indian metropolitan centres. The appeal is heightened by parks, attractive houses, relatively low property prices, and a cosmopolitan atmosphere.

"This is by far the nicest city in which to live and work in

India. There is no comparison," says Mr Kamesh Desai, managing director of Titan Industries, a watch and jewellery manufacturer which has its headquarters in Bangalore.

The city's emergence as a centre for computer technology stems from decisions of the central government in New Delhi shortly after India's independence from British rule in 1947. Faced with potentially hostile neighbours to the north in Pakistan and China, the government sought to locate strategically sensitive industries well away from the borders, and away from the coast.

Bangalore was therefore an obvious place to have the Indian Air Force as well as a number of other public sector institutions which were seen as central to India's development under the Congress Party's doctrine of socialist "self-reliance".

The city remains the base for public sector giants such as Hindustan Aeronautics, Hindustan Machine Tools, Bharat Electronics, Bharat Earth Movers, Indian Telephone Industries, and the Indian Space Research Organisation, which develops and launches satellites for civilian purposes.

Although some of the public sector companies no longer flourish, and are hardly at the cutting edge of technology, they did spawn the establishment of a number of universities, institutes and colleges providing engineering and scientific training.

The presence of such companies and educational establishments helped the computer industry to set up around Bangalore. For example, when Titan Industries was founded in the 1980s, it deliberately targeted the employees of Hindustan Machine Tools, which also makes watches.

Mr John Whitting, president and managing director of Tata Information Systems, a joint venture between the Tata group and International Business Machines of the US, says: "We came here primarily because of the talent being produced in Bangalore from its educational establishments. It

still produces a lot of talent, although there is some concern over the number of qualified people coming on to the job market."

Computer industry executives caution, however, that while Bangalore is the centre, the industry pulls in employees from all over the country.

Mr Som Mittal, managing director of Digital Equipment (India), which is 51 per cent owned by Digital of the US, says: "We don't specifically choose people from here. We do a national search, although people from Bangalore are obviously easier."

Mr N.R. Narayana Murthy, chairman of Infosys, a fast-growing software company, says its new recruits are a mixture. "We recruit elsewhere but we also have a responsibility to create jobs for Karnataka," he says. The company seeks graduates in engineering and communications applications from all over India.

As an indication of the demand for jobs in the industry, Infosys screens 4,500 people each year from whom it selects 200. Some companies are recording very rapid growth: Tata Information Systems, for example, is thought to be doubling its revenues each year, and will have about 1,000 employees at the end of 1995 compared with 450 at the beginning of the year.

There are two factors behind the growth of the computer industry. First, the liberalisation policies of the central government of Mr P. V. Narasimha Rao, the prime minister. From 1991 onwards, the government drastically reduced the requirements on the private sector to seek official approvals, cut import duties and adopted a more open approach to foreign investment.

Secondly, the computer industry did not exist when most government regulations were written, and therefore its activities are relatively free. Nevertheless, all companies still need to battle with bureaucracy for their basic needs such as land and services from utilities, and corruption is a serious problem in



The small Kentucky Fried Chicken restaurant in Bangalore, the chain's first in India, has had to be protected by police and security guards after threats. See 'A finger-dickin' uproar' on page 2.

almost all states.

The advent of the computer industry has yet, however, to make much of a dent in the overall economic picture for Karnataka, which remains primarily an agricultural state, producing large amounts of foodgrains, oilseeds, sugar and cotton as well as higher value produce such as coffee, shrubs and silk.

The predominance of agriculture to some extent insulated the state's nearly 50m people - of whom about 76 per cent live in rural areas - from the industrial recession which hit India after the financial crisis of 1991. During the first four years of the 1990s, average economic growth in the state was 5.1 per cent. However, the figure was 4.2 per cent in the 1993/94 financial year and the state estimates only 3.5 per cent in 1994/95 because of an unfavourable monsoon.

The importance of farmers, who benefit from many subsidies, tends to put political and financial constraints on the efforts of the state government to tackle Karnataka's pressing infrastructural problems. Farming leaders in the state

have also adopted a strong stance against foreign investment. They led a fierce though unsuccessful campaign against the local operations of Campbell of the US and are now seeking to eject Kentucky Fried Chicken of the PepsiCo group.

However, Karnataka is actively seeking foreign investment. The government of Mr Deve Gowda, who is from the leftist Janata Dal party, took over last December from a Congress party government in one of a series of state electoral setbacks for the Congress Party, which controls the federal government in Delhi.

Mr Deve Gowda has made clear that he has no major quarrel with the liberalisation policies of the central government and has actively joined in the competition among states to lure foreign investment. In spite of the state's efforts, only about \$320m of foreign direct investment has come in since the economy was opened up in 1991, according to central government figures.

The chief minister has made improvement of infrastructure his main priority, and to this end has put his weight behind

the proposal of Cogentrix of the US to build a 1,000 MW power plant on the Karnataka coast. "This government has made it clear that it will proceed with an open mind to invite private investment, taking advantage of the new economic policies, and see that the power shortage was a facing should be sorted out," Mr Deve Gowda says.

The arguments over Cogentrix have assumed extra significance following the decision of the government of the neighbouring state of Maharashtra to scrap a power project which was already under construction by a consortium led by Enron of the US. Cogentrix is actively countering concerns raised by environmentalists, but is still awaiting approvals from both state and central governments.

Businessmen say that although Mr Deve Gowda has given all the right signals on infrastructure, he has yet to deliver any real improvements. They see this as the crucial factor in determining whether the state, and Bangalore in particular, will retain its competitive edge.

■ Power By Mark Nicholson

Top of the state's wish-list

Even with a decent monsoon, demand exceeds supply at peak periods by at least 17 per cent

Until the monsoon rains swept in with a belated, but providentially torrential appearance last month, Karnataka was staring at its worst power shortage in recent history. Mr J. H. Patel, Karnataka's deputy chief minister who is responsible for power, said cuts of between 50 and 70 per cent would have been imposed.

Such is Karnataka's dependence on hydro-electric power, fed by reservoirs filled by the annual monsoon. Of the state's installed capacity of 3,377 MW, 71 per cent comes from its mostly ageing hydro-electric stations, some of which were built under the British Raj. The remaining power is either generated by Karnataka's few thermal plants, provided by the central government's National Thermal Power Corporation or, increasingly, by captive power units built by industrialists.

But added together, even with a decent monsoon, Karnataka cannot meet its needs. Power cuts are already routine, for demand exceeds supply at peak periods by at least 17 per cent, not allowing for suppressed demand. Reliance on hydro-electric power makes even these supplies vulnerable to the weather, and the state requires heavy investment in thermal stations to provide more "base" power. Like every other state in India, neither the government nor its state electricity board has money to finance new power projects.

According to Mr H. R. Gupta, chairman of the Confederation of Indian Industries in Bangalore, energy-intensive industries are already shying away from Karnataka because of the shortage of power.

Power is "our priority number one," says Mr Patel. "That is why we have taken the decision to invite the private sector and foreign capital. We need at least Rs250bn (\$7.8bn) of investment".

In 1991, the central government opened the country's power sector to private investment. Thus, when Mr Deve Gowda's Janata Dal party took power last year, it inherited a clutch of private sector proposals for power plants. To date the state has received 28 such proposals, 19 thermal and 9 hydro-electric, for an envisaged total of 5,494 MW.

Of these, one matters above all others: the proposal from Cogentrix, the North Carolina-based power development com-

pany, to build a 4x250 MW coal-fired plant on the coast at Mangalore. Cogentrix's partner in the project is Hong Kong Light & Power, which holds a 40 per cent stake in the Mangalore Power Company.

The Cogentrix project is one of eight power projects in India to have been offered a central government "counter guarantee", whereby the centre undertakes to assure payment for the privately-generated power from the mostly loss-making state electricity boards, the power purchasers. The project, on which Cogentrix began discussions in 1992, is further advanced than any other big project in the state. It may be the most important test case for foreign-backed private power projects in India since the state government of Maharashtra cancelled the Enron-led Dabhol power project in August.

Cogentrix, like Dabhol, has had to contend with a change of state government. It has, similarly, attracted opposition from Hindu nationalist groups and environmentalists. But unlike Dabhol, the Mangalore project has the backing of the new state administration. "Cogentrix will be cleared in another three to four months," says Mr Patel.

Formally, the project still requires environmental approval and negotiation of the terms of the counter-guarantee with the central government. Both, says Mr Ron Somers, Cogentrix managing director, can be achieved by the end of this year. He hopes thereafter to tie up the financial package for the project by early next year.

After the Enron affair, Mr Somers is acutely aware of the need to remove any suspicion of "cost padding" - one of the charges levelled against the project by the Hindu nationalist Bharatiya Janata Dal party in the state. They point to the fact that when initially conceived in 1992, the project was expected to cost Rs50.8bn, but that this subsequently fell in 1993 to Rs43.8bn - evidence, they claim, that the project's costs must have been inflated.

Cogentrix, however, says that the initial project envisaged a 6x167 MW configuration and that it was the revision to a 4x250 MW format which led to the cost reduction. Opponents of the deal level further charges - that Cogentrix is importing coal, when India has ample coal reserves, and that the project will harm the environment around its Mangalore site. To the first, Mr Somers answers that imported coal is twice as efficient as Indian coal, and that he could

KARNATAKA Key information

■ Area
192,000 sq km

■ Capital and population
Bangalore, population 4.1m out of a total state population of 45m (1991 census). 31% of the state's population is urban.

Other large towns
Bellary, Bijapur, Shimoga, Raichur, Mysore, Mangalore

■ Main industries
Electronics, computer software, telecommunications equipment, aeronautics, machine tools, watch-making, electrical engineering, aluminium, steel, cement, sugar, food processing, textiles, mining, sericulture.

■ Main crops
Rice and other foodgrains, sugarcane, coconut, groundnuts, coffee, cotton.

■ Language
Kannada is the language of administration and is spoken by about 66% of the people. Other languages include Urdu (9%), Telugu (8.17%), Marathi (4.5%), Tamil (3.5%), Tulu and Konkani. English is widely spoken.

■ Currency
Rupees (Rs) divided into 100 paise. ₹1=Rs53.73 at beginning of October.

Import and export of local currency is prohibited. Import of foreign currency is unrestricted, but export can only be effected up to the amount declared on import.

Foreigners generally required to pay hotel bills in foreign currency. International credit cards are widely accepted in big cities, although can be more expensive than paying by cash. Travellers cheques acceptable.

■ Visa requirements
Required by all foreign nationals. Obtainable from high commissions, embassies and consulates. In London, the embassy is at India House, Aldwych, WC2B 4NA tel (0171) 836-8484.

■ Air links
No international airport, but flights to other main Indian cities

■ Health Control
Yellow fever: Vaccination required if arriving within six



days, from or via an infected area, or from most African, Central or South American countries. Precautions recommended

also against cholera, malaria, typhoid, polio and tetanus. Infectious hepatitis (A and B) is common, so precautions are recommended. Intestinal upsets

are ubiquitous. Rabies is endemic.

■ Working hours
Business hours:
Government offices: 0930-1700
Mon to Fri: 1000 to 1230
Saturday:
Offices: 0930-1700 Mon to Fri,
half-day Saturday
Banks: 1000-1400 Mon to Fri,
1000 to 1230 Sat
Shops: 0930-1800 Mon to Sat.

■ Public holidays
January 1 (New Year's Day),
January 28 (Republic Day),
August 15 (Independence Day),
October 2 (Mahatma Gandhi's
birthday) and major Hindu,
Muslim and Christian holidays.

■ Climate
Hot and tropical, with
temperatures in Bangalore
seldom falling below 15degC in
winter, and going above 34 in
April, the hottest month.

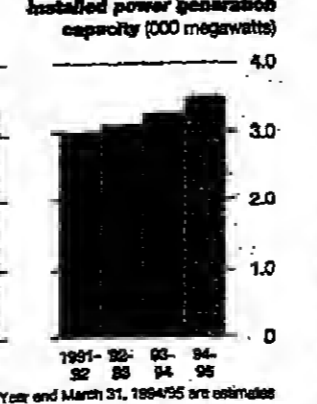
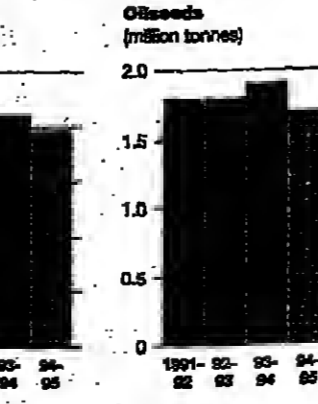
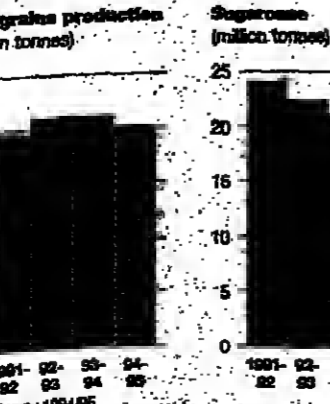
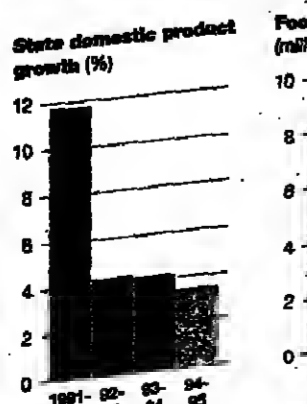
Summer average maximum
temperature 33degC; winter
average maximum 26degC.
Heaviest rainfall in October, with
up to 200mm. Driest months
January to March; best months
to visit are from the end of the
monsoon in November to the
beginning of April.

■ Time
Five hours and 30 minutes
ahead of GMT

■ Government
Governor: Khurshid Alam Khan
Chief Minister: Haradanahalli
Doddegowda Deve Gowda,
since December 1994

■ Useful contacts
Karnataka Chamber of
Commerce and Industry:
Karnataka Chamber Building,
Hubli 580 020, tel (836) 63102,
fax (836) 365348, president G.B.
Hamparinar, secretary G.B.
Goudappagol.

Sources: Reuters, Statesman's Year-Book,
BY Country Report, Western Country
Reports, World of Information and others
Compiled by FT Library



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II The Indian State of KARNATAKA

PROFILE

Chief Minister H. D. Deve Gowda

A pragmatic 'man of the soil'

When Mr H. D. Deve Gowda was appointed chief minister of Karnataka last December, he wasted no time in launching a campaign to attract investment.

Since he is from the leftist Janata Dal party, this was among the first indications that the enthusiasm of the central government for opening up India to foreign investment had spread to leaders of other parties. The Karnataka election result was a reverse for the Congress party which controls the central government, but the new chief minister's pragmatism suggested economic reform might outlast that government.

Mr Deve Gowda was soon seen at the World Economic Forum in Davos, Switzerland, and at the Confederation of Indian Industry's annual



Mr H. D. Deve Gowda

conference in Calcutta, sending signals that Karnataka was open for business. Such gatherings appeared an unlikely environment for a 62-year-old "son of the soil".

He fought long and hard

through India's complex political web to reach his position. Seen as a man with his feet firmly on the ground, his straightforward approach has been welcomed by business in Bangalore even though it has yet to produce concrete improvements in the state's creaking infrastructure.

"We are lagging behind in infrastructure for developmental activity, including industrial development," Mr Deve Gowda says. He has made the state's shortage of power his main priority for action. The government, he says, "will create and provide all the infrastructural facilities, including land, water... We do not want to create an atmosphere of delay."

Mr H. R. Gupta, Bangalore chairman of the Confed-

eration of Indian Industry, says of the chief minister: "I feel he's doing a great job. Mr Deve Gowda wants industrial development in the state and is accessible. He's taking every opportunity to spare time and meet people."

Mr Deve Gowda had been due to visit the US and Britain shortly to continue his campaign for foreign investment - competing with other chief ministers who are making similar visits. But the trip was postponed when he came under domestic political pressure because a senior civil servant in the state government was sentenced to a month's jail because the state had failed to enact an order of the Supreme Court in New Delhi.

Alexander Nicoll

■ **Property:** Bangalore is an estate agent's paradise, reports Mark Nicholson

Prices soar 200% in a year

Since the '80s, successive waves of newcomers have pushed demand ever upwards

These are such good days for Bangalore's estate agents that everyone wants in on the act. "Everybody here now seems to be an estate agent," says one real estate agent in the city centre. "From the lift operator to the teaboys in the street - all sorts of people are calling up to find out from us which properties are available, then trying to move in and broker the deals themselves."

By some estimates, rent and land prices for Bangalore property have tripled or quadrupled in the four years since India's liberalisation policies gave a hefty shove to what had already been a long period of steady property price growth, fed by successive waves of buyers since the early 1980s.

Property prices began their present ascent in the early 1980s, says Mr Feroze Abdullah, executive director of Feroze's Estate Agency, and have since been propelled by successive and merging waves of newcomers. "It's a combination of the good weather here, the convivial atmosphere, Bangalore already being a cosmopolitan city, the good labour relations and, relative to places like Bombay and Delhi, the fact that land was cheap and rents reasonable," he says.

For these reasons, 15 years ago Bangalore became, he says, the "pensioners' paradise", attracting well-heeled retirees from north India. To this flow was added another as hundreds of Punjabis fled the sectarian violence which convulsed the state for most of the 1980s. By the middle of the



Construction work on a site in Bangalore city centre

Picture: Tony Anderson

decade, Bangalore's emergence as "silicon valley south" brought in the first big foreign companies looking for office and residential space.

This latter flow grew considerably after 1991, when the government of Mr P. V. Narasimha Rao, the prime minister, opened India's doors to foreign investment. Indian investors from Bombay, Delhi and Calcutta then started piling into the Bangalore market as prices rose precipitously in their own

cities. And in the last year to 18 months, say estate agents, a fresh wave of Indians has crashed into the market from East Asia, either non-resident Indian investors from Singapore setting up businesses or Hong Kong Indians looking to establish a bolt hole. Lately, therefore, says Mr Abdullah, "there's been a tremendous boom - in some places last year there's been an increase of 200 per cent in land prices."

Today Bangalore property remains considerably cheaper than Bombay or Delhi - a factor which has encouraged companies, like Britannia, the Indian foods group, to move headquarters from Bombay, and drawn others, like Motorola, the US communications and software group, and Cazenove, the British merchant bank, to establish new bases in the city. Some expatriates today choose to live in Bangalore, where their housing packages stretch further, while working in Bombay.

The result has been a sharp rise in land and rent prices over the past three to five years. On average, land prices in central Bangalore - generally meaning within three or four kilometres of MG Road, the city's prime commercial street - have shot up in the period from around Rs1,500 a square foot to between Rs6,500 and Rs10,000 a square foot. Rents in prime commercial areas have risen from around Rs15 a month a few years ago to nearer Rs60 to Rs100 a square foot today.

Residential prices have followed suit. Rents for modest, reasonably central two-bedroom apartments have more than doubled to Rs50,000 to Rs80,000 a month in the period, while land prices have soared. Where couples might four or five years ago have managed to find good, central houses for Rs800,000 to Rs900,000, today estate agents say bidding starts nearer Rs5m.

But prices remain cheaper in general than New Delhi, and far better value than exorbitant East Asia. "Sell your flat in Bombay," says one Bangalore architect, "and you can buy five good flats in Bangalore." As in both Delhi and Bombay, however, landlords are rare who do not demand that a year to two years' rent be paid in advance to secure a property. But, unlike both northern cities, good, central property remains available. Though the Bangalore market is tighter than ever, estate agents say it remains possible both to find spacious office accommodation within reach of the centre and, something unheard of in Bombay, to purchase land for fresh development within the city centre.

Motorola, for instance, has just moved into a purpose-built 11,150 sq m headquarters in Ulsoor Road, dead city centre. And while Bangalore suffers, like other big Indian cities, from multi-layered legal and bureaucracy-bound restrictions on land purchase, estate agents and architects say the illicit mechanisms for circumventing such laws, or expediting affairs, are better off in Bangalore than other cities. "It's never a problem," says one, "if you have the right lawyers, the right contacts and, of course, the right dollars."

For the present, estate agents suggest, the Bangalore market is steady. Mr Abdullah believes prices will continue to rise, but more modestly - by perhaps 25 per cent - over the next six months to a year. But in the longer term, many also agree that Bangalore's popularity is stretching its infrastructure to breaking point.

Power cuts are common across town and, given the likeliest outlook for new power generation in the state, will worsen over the next four or five years. Transport is a growing headache, with prospects for the city's vaunted new airport and rapid transit system still distant. Bangalore's city centre roads, meanwhile, are clogging fast and the main arteries outwards, towards Madras, Mangalore and Mysore - becoming the new loci of heavy and light industrial development - are crumbling, narrow, slow and choked with traffic.

■ **Foreign investors:** Business is embarrassed by fundamentalist protests, says Alexander Nicoll

A finger-lickin' uproar

'No thank you, we don't want any technology,' says leader of the war against KFC

Some foreign companies seeking to build a presence in India run head-on into problems they could not expect. One such is Kentucky Fried Chicken, part of the PepsiCo group.

KFC, which plans to invest \$40m in 30 restaurants over seven years, opened the first in Bangalore in June after obtaining all necessary clearances from the central, state and city authorities. Already, however, it is in court, fighting to stay open. The city corporation is seeking to close the restaurant down, alleging excessive levels of monosodium glutamate (MSG) in the food.

People who want to eat in the small KFC restaurant, located in a busy shopping area, have to go past police and security guards posted to protect it from attack.

KFC's problems have embarrassed business leaders in Bangalore who want to attract

more foreign investment to the area and fear that the state's image will be damaged by groups who, in their view, are marginal and do not command significant popular support.

The campaign against KFC is being led by Professor M. D. Nanjundaswamy, a farmers' leader whose views run counter to conventional approaches to economics. He is no stranger to battles against foreign companies, having fought against the entry into Karnataka of Cargill, the US agricultural concern. Cargill's Bangalore office was attacked and burned in 1993, though the group's operations are now flourishing.

Prof Nanjundaswamy's opposition to these companies stems from his belief in an isolationist economic policy of self-sufficiency in which there would be no mass production and farmers would be paid what he considers the true return for the produce of their small lots. "No thank you, we don't want any technology," he says. He considers himself a true follower of Mahatma Gandhi, India's ascetic pre-independence leader.

According to him, Mr Jawa-

harlal Nehru, who became India's first prime minister in 1947, perverted Gandhi's ideals. "He continued the British model with a socialist label," he says in the professor's view. It has been all downhill since then: "I wouldn't say that we have achieved any development at all."

He says: "KFC is not just a simple restaurant. It's a multinational giant coming into the food sector, trying to influence standards." His main charges are that KFC is serving "chemical" and "fast food" chains, such as McDonald's and Pizza Hut, will divert foodgrains needed for Indians into feed for chicken and cattle. There are also accusations of excessive levels of MSG, and that KFC is perverting Indian cuisine by serving carcinogenic fried "junk food".

KFC rejects these charges. "All these allegations are without any basis. They have no data, no facts," says Mr Sandeep Kohli, managing director of PepsiCo Restaurants International in New Delhi. Chickens come from a local supplier which injects no hormones and has had no cases of salmonella

or other harmful pathogens. MSG amounts levels are well below the permitted 1 per cent level. Poultry feed, according to KFC, is mainly from agricultural by-products not consumed by humans.

KFC argues that if its food is "junk", then "most of the food Indians consume will be classified as junk". It points out that most Indian snacks, such as samosas and dosas, are fried. "If these fried foods were cancer-causing everybody would be suffering from cancer," it says. It says, has low fat and low cholesterol.

Logic may not count for much in what has become a political issue which arouses nationalist emotions in many Indians, even in cosmopolitan Bangalore. However, the state government remains committed to supporting KFC.

Prof Nanjundaswamy, who claims the support of 10m Karnataka farmers - a figure many consider to be inflated - says he is waiting for the governmental processes to work on KFC. "If our representatives fail us, then we will resort to democratic methods, throwing them out physically - non-violently of course."

PROFILE

Motorola

'You have to follow the rules'

Dinesh Raghavan says he has been "pleasantly surprised" by his experience setting up and running Motorola's new pager manufacturing plant in the "Electronic City", a government-sponsored industrial site 18 km outside Bangalore.

"I came here with a lot of negative perceptions," admits Mr Raghavan, a Motorola veteran who joined the US electronics, communications and equipment group 18 years ago in Malaysia, but has spent most of his career in the facilities in Florida.

"I thought India would be a difficult place to work in because of the bureaucracy and the perceived level of corruption." But he says he has not encountered any corruption. "There are systems, and you have to follow the rules," he says.

Even India's bureaucracy seemed to move quickly for Motorola, probably helped by its presence in the sub-continent since 1987, when a representative office was established in Delhi, and the setting up of a datacommunications products manufacturing facility in 1990, which is also in Bangalore. "The Delhi office knew the procedures," says Mr Raghavan.

The decision to establish the plant was taken in August 1993 and after a two-month search for a site the plant opened in April the following year. "There was a shell here

but we installed everything else," he says.

In this case, "everything" included the 2.78 sq m plant's own generator and voltage regulators to ensure the facility could continue to operate despite the daily power cuts and voltage reductions which plague businesses in Bangalore.

Despite the chronic infrastructure problems, Motorola chose Bangalore "because it is viewed as the Silicon Valley of India," says Mr Raghavan. Many multinationals, including Hewlett-Packard, IBM and Fujitsu, have also established operations there.

However, the biggest lure for foreign electronics companies is low cost, high quality labour and the opening up of the domestic market.

Underlining the plant's success in achieving high quality standards, it obtained ISO 9002 certification within five months of beginning operations.

Motorola's strategy in setting up the facility was to supply the local Indian pager market once it takes off. The first pager services in India began in metropolitan cities, including Bombay, earlier this year. By the end of 1995, services should be available in 27 cities around the nation.

Some industry analysts believe the market could be as big or bigger than China, and Motorola is not alone in

spotting the opportunity. Philips, of the Netherlands, has already set up a manufacturing facility; Casio, of Japan, has plans to set up a plant in Goa; and Korean manufacturers are believed to be eyeing the market.

Ahead of the expected boom in domestic demand, Motorola shifted manufacture of its "Adviser" pager out of Singapore to the new plant in June last year, enabling the group to take advantage of India's relatively low wages and run the Bangalore facility at full capacity. It is currently producing pagers worth around \$100m annually, mostly for export to the Asia Pacific region.

Currently, 248 employees work two shifts at the plant. "We would love to open a third shift but women cannot work after 10pm or before 6am," says Mr Raghavan, and Indian law says that shifts must be rotated, ruling out an all-male night shift.

There have been no industrial relations problems at the Motorola plant, and Mr Raghavan says the workforce is highly committed and motivated.

He believes Western companies have an advantage in India, where the prevailing work culture is usually hierarchical and status oriented. "We provided a refreshing change," he says.

Nevertheless, he also believes Western employers are largely responsible for the

rampant wage inflation in Bangalore, particularly among experienced technical staff.

Motorola's own wage costs rose by 28 per cent last year, although managers acknowledge that they are well below Western rates. Line operators, who comprise about two-thirds of the staff, are paid \$100 a month and engineers \$300 a month.

The group has had considerable success with Motorola India Electronics, its fast-growing Bangalore-based research centre which writes software for all Motorola's businesses. It is also developing software for the \$3.4bn Iridium project, which is due to become operational in 1996, and will provide global wireless hand-held telephone services via a network of 66 low-earth orbit satellites.

Meanwhile, Motorola's Land Mobile division began assembly of two-way hand-held radios a few months ago and a semi-conductor sales office has been established in Bangalore.

These new investments underline Motorola's determination to play a key role in the rapidly-developing domestic Indian information technology market - aided by the new pager plant the group is already ranked as India's largest telecommunications equipment exporter.

Paul Taylor

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JINDAL
VIJAYANAGAR STEEL LTD.

Prashant/04/95

Top of the wish-list

■ From page 1
not anyway secure financing based on the "best efforts" delivery promises of the notoriously unreliable state-owned coal and rail operations.

On environmental issues, Mr Somers says: "It's exactly as if we were doing the deal in California." He concedes that the proposed imported coal has a higher sulphur content, but says that since less needs to be burned and since imported coal leaves a third less ash, the environmental impact will be less.

Even if the project sails through, however, it will still provide only 1000 MW. At least five more Cogentrix-sized projects are necessary to meet likely demand in 2000.

Mr Patel says two other US power groups are interested in installing new thermal units, with total proposed capacity of 800 MW. Otherwise, prospects appear limited. Industrialists, accordingly, are increasingly providing their units with captive power. Connected industrial demand in the state is around 1,200 MW, and more than 900 MW is now generated by captive units.

In the longer term, attracting investors will depend upon being able to offer them viable returns, which in turn will require restoring the state's loss-making electricity board to solvency. In Karnataka, as in most other states, the solution will lie in charging the state's farmers, who presently receive their power free.

Until tariff rationalisations are made, the base for investors is shaky. Of the state's power, 43 per cent is supplied, free, to farmers, while 23 per cent is lost or stolen in transmission. Two thirds of the state's power is, therefore, not paid for.

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هكذا من الجليل

INTERNATIONAL CAPITAL MARKETS

Lukewarm response to D-Mark deals

By Conner Middelmann

The D-Mark credit sprang back to life with four medium-term bonds, but the deals, three of which were triple-A rated five-year bonds, got a lukewarm reception.

While most dealers did not quibble with the terms of the issues, they said the five-year area - one of the few sectors in the eurobond market offering

BNG, the Dutch municipal financing institute, also tapped the five-year sector with DM250m of 6.625 per cent bonds via BZW. The spread of 28 basis points over Bobls was deemed aggressive and the gap widened to around 32 basis points, traders said.

Ford Credit issued DM250m of five-year bonds via Deutsche Bank. Its deal got a slightly more enthusiastic response from continental European retail investors for its higher spread of 62 basis points over Bobls, reflecting the borrower's lower credit rating of A1/A+.

In the dollar sector, TMCC's \$750m issue of five-year bonds was a resounding success, being several times oversubscribed. Its yield spread over Treasuries, 22 basis points at launch, narrowed to 20 points by the close.

"It was a fairly priced deal, they had a great story to tell - everything about it was right," said one dealer. One of the lead managers said about 50 per cent of the bonds had gone into Asia and the rest into European accounts.

Meanwhile, a £100m 10-year issue for London Electricity, the top-rated UK electricity

Table with 10 columns: Issuer, Amount, Coupon, Price, Maturity, Yield, Spread, Book runner. Rows include US Dollar, D-Mark, Yen, and Australian Dollar issues.

company, got a warm welcome, with a third of the bonds placed in continental Europe, according to HSBC Markets. Bonds previously issued by electricity companies had been

under pressure amid takeover activity and fears of rating downgrades, but the recent recovery of the sector helped this issue considerably. Another £200m of five-year

Russia near agreement on London Club debt

By Graham Bowley

Russia and its commercial bank creditors have moved closer to an agreement on the rescheduling of the country's defaulted commercial loans, its so-called London Club debt.

Representatives from both sides, which met in London this week, are to recommend that Russia's \$25bn-\$30bn of commercial bank loans be restructured into loans with a 25-year maturity, according to banking sources close to the negotiations.

Past due interest on the loans is to be repackaged into 20-year bonds, they said. There would also be a seven-year grace period, during which no principal repayment would be due.

The recommendations are to be considered at a full meeting of Russian and bank negotiators "in a few weeks' time", according to a statement. Bankers said they expected a final decision to be made before the end of the year.

"This is a further sign of the seriousness of the Russians and the eagerness of the London Club to come to an agreement," said Mr David Boren, an emerging market analyst at Salomon Brothers in London.

The progress will be welcomed by foreign investors, who see the settlement of Russia's outstanding debt problems as an important measure of the transition to a market economy and as a signal of the authorities' commitment to attracting foreign investment.

US dollar and D-Mark-denominated debt trading in London rose slightly on the news.

"It's positive, but let's not get too excited," said one emerging markets analyst. "This is an outline of the deal that might or might not be approved."

FOA forms panel to advise users of derivatives

By Conner Middelmann

The UK Futures and Options Association (FOA) yesterday launched a specialist panel to advise users of derivatives - especially small and medium-sized enterprises - on how to improve their internal risk management controls.

DERIVATIVE INSTRUMENTS

The Operational Risk Review Panel comprises members from 15 leading firms of lawyers, accountants and consultants who have particular expertise in advising users of derivatives on operational and legal risk.

Each of the panel members will offer their services to market users for the purpose of reviewing their documentation, practices and procedures. The service is aimed at unregulated corporate users of the derivatives market, although others - such as pension funds or insurance companies - will be able to use it for an independent appraisal of their control systems.

"The role of derivatives in the management of risk has received a lot of attention from regulators, the media and the industry, and there has been a proliferation of reports concerning what should be good practice," said Mr Michael Jenkins, chairman of the FOA, when introducing the new service. "But these reports are often fairly inaccessible to small and medium-sized end-users of derivatives," he added.

While the majority of market participants use derivatives to great effect in managing financial risk, he said, others "still have to learn the importance of establishing and maintaining proper policies, procedures and controls governing their use."

For this reason, said Mr Jenkins, the association decided to offer a practical "help-line" for end users of derivatives to establish whether their policies and procedures are appropriate.

An FOA committee has also drawn up a list of derivatives risk management guidelines which are due to be released before the end of the year, he said.

The cost of the service is likely to be some 50 per cent below the fees usually charged by specialist consultants for detailed appraisals of companies' risk profiles.

However, the work of the panel will usually provide only a "health-check", rather than an in-depth examination.

The panel will advise users of derivatives on various aspects of operational risk, such as strategies, policies and procedures; management supervision; valuation of derivatives holdings and their sensitivity to underlying market movements; counterparty credit exposure; and trading and settlement procedures.

Legal risk assessment will include examining whether a company is able to enter derivatives transactions and can provide collateral or guarantees to back its obligations; contractual relationships; proper authorisation; and the participants' regulatory status.

The risk review panel includes law firms Ashurst Morris Crisp, Baker & McKenzie, Clifford Chance, Denton Hall, Freshfields, M.W. Cornish, Macfarlanes, Simmons & Simmons, and Stephenson Harwood, tax and accounting consultants Field Fisher Waterhouse, Moores Rowland, Price Waterhouse, and Touche Ross; and derivatives consultants Trevor Robinson Investment Management.

US Treasuries little changed in quiet trading

By Lisa Branstetter in New York and Antonia Sharpe in London

US Treasury prices held steady in quiet trading yesterday as new data was mostly in line with economists' expectations and the dollar posted modest losses on profit-taking.

Near midday, the benchmark 30-year Treasury was 1/8 lower at 105 1/2, yielding 6.456 per cent and the two-year note was up 1/8 at 100, yielding 5.733 per cent. Volumes were thin because of the Yom Kippur holiday.

Manufacturers orders rose 3.6 per cent in August, more than reversing July's 1.0 per cent decrease, but the figure

failed to rattle the bond market as it matched median expectations. The index of leading economic indicators was also in line with economists' forecasts, gaining 0.2 per cent in August.

GOVERNMENT BONDS

Most traders were more concerned with the data on September employment due on Friday than with figures on economic activity in August.

The dollar slipped against the yen and the D-Mark as currency traders took profits in advance of this weekend's meetings of the G7, in early

trading it was changing hands at ¥100.69 and DML4375 compared with ¥101.35 and DML4375 late on Tuesday.

European government bond markets moved higher in the late afternoon but earlier in the day had shown little movement as traders awaited developments from the meeting of the International Monetary Fund in Washington.

Stories that the meeting would result in concerted intervention to support the dollar were discouraging participants from taking positions.

A further reduction in the repo rate by the Bundesbank failed to excite the German

market which reopened after Tuesday's holiday. The central bank cut the lowest accepted rate to 4.05 per cent from 4.08 per cent, prompting a further steepening in the yield curve.

Ms Phyllis Reed at BZW said three-month rates in Germany were set to go below 4 per cent, which would cause the yield curve to steepen further. She said that since the curve was so linked to interest rate movements, it was difficult to see it flattening in the near term.

Mr Graham McDevitt, bond strategist at Paribas Capital Markets, said the market was focusing on the forthcoming auction of new bonds which could be as large as DM15bn.

Strong words from Mr Alain Juppé, the French prime minister, about the dangerous situation of the country's finances caused a softening in the French market, where the spread over bonds widened by about 4 basis points to 94 points.

Analysts said the market was pricing in any trouble which could be sparked by the forthcoming strike on October 10. On the Matif, the 10-year national government bond eased 0.12 point to 115.40.

UK government bonds had an uninspiring day, with the December long gilt future rising 1/8 to 106 1/2.

WORLD BOND PRICES

Table with 10 columns: Country, Coupon, Price, Yield, Change, Week ago, Month ago. Rows include Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Portugal, Spain, Sweden, UK Gilts, US Treasury, and ECU.

Table with 10 columns: Country, Coupon, Price, Yield, Change, Week ago, Month ago. Rows include France, Germany, Italy, Spain, and UK.

US INTEREST RATES

Table with 4 columns: Rate, One month, Three month, Six month, One year. Rows include Prime rate, Fed funds rate, and Treasury bills.

BOND FUTURES AND OPTIONS

Table with 10 columns: Country, Coupon, Price, Yield, Change, Week ago, Month ago. Rows include France, Germany, Italy, Spain, and UK.

UK GILTS PRICES

Table with 10 columns: Maturity, Price, Yield, Change, Week ago, Month ago. Rows include 14.5%, 15%, 15.5%, 16%, 16.5%, 17%, 17.5%, 18%, 18.5%, 19%.

Table with 10 columns: Country, Coupon, Price, Yield, Change, Week ago, Month ago. Rows include France, Germany, Italy, Spain, and UK.

Table with 10 columns: Country, Coupon, Price, Yield, Change, Week ago, Month ago. Rows include France, Germany, Italy, Spain, and UK.

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FT-ACTUARIES FIXED INTEREST INDICES

Table with 10 columns: Index, Price, Yield, Change, Week ago, Month ago. Rows include 1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years.

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FT FIXED INTEREST INDICES

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GILT EDGED ACTIVITY INDICES

Table with 10 columns: Index, Price, Yield, Change, Week ago, Month ago. Rows include 1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years.

Table with 10 columns: Index, Price, Yield, Change, Week ago, Month ago. Rows include 1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years.

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Financial Times sidebar containing various market reports and advertisements, including 'Dollar', 'Markets Report', 'Exchange Cross', 'LONDON MONEY', 'THREE MONTH STERLING', and 'SHORT STERLING OPTI'.

INVESTMENT TRUSTS - Cont.

2017	115.5	9.8
2018	115.5	9.8
2019	115.5	9.8
2020	115.5	9.8
2021	115.5	9.8
2022	115.5	9.8
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SUPPORT SERVICES - Cont

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LONDON STOCK EXCHANGE

MARKET REPORT

Takeover cash gives further boost to equities

By Steve Thompson, UK Stock Market Editor

More evidence that cash from the recent spate of takeover bids in the regional electricity sector has been pushed back into the equity market, plus a fundamental stock shortage across the market, drove UK shares higher again yesterday.

Once again, the possibility of imminent corporate activity was said to have been behind strong gains in various sectors of the market.

True to recent form, the utilities provided more than their fair share of interest, with speculators shifting their sights in the electricity stocks

towards East Midlands Electricity and Yorkshire.

Another hint in utilities was that the much heralded bid for Northumbrian Water from Lyonnaise des Eaux would come in lower than previously thought.

The FT-SE 100 index ended a buoyant session only a shade below the day's best, closing 19.9 higher at 3,544.1. The second-line stocks continued to leave their senior brethren behind, with the FT-SE Mid 250 index climbing 15.2 to 3,988.8.

Strong gains across the board in the equities market owed nothing to Wall Street, where the Dow Average, which dropped some 11 points overnight, came in weaker again,

falling well over 20 points within 90 minutes of London's close, with US markets said to be increasingly nervous ahead of tomorrow's US non-farm payroll figures.

Dealers did point out, however, that European markets had taken heart from the recent encouraging performance of US Treasury bonds, where yields have moved to their lowest levels this year.

The trend in US bonds was said to have sustained UK gilts, which ended a few ticks higher yesterday.

Some traders felt the market was already discounting more bid activity. "It wouldn't take too much for this market to get very windy indeed," said one. Strategists are

becoming increasingly cautious as the FT-SE 100 moves to within striking distance of its all-time high.

The best individual performances in the FT-SE 100 came from Courtalds and the two crosses of HSBC stock, where SBC Warburg was said to be promoting big switching between the Hong Kong and UK registered stock.

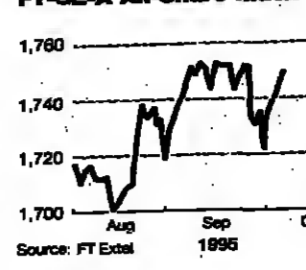
On the downside, Bank of Scotland took the dubious honour of worst performer in the premier index, after announcing disappointing half-year profits and a below consensus dividend.

Of the front runners in the FT-SE Mid 250, Vickers responded to broker recommendations, while Willis

Corroon, the insurance broker, caught up with fellow broker Sedgwick, which made rapid gains on Tuesday. Both stocks have been languishing at near-bottom lows.

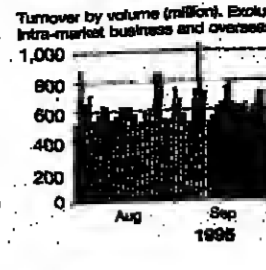
Turnover in equities increased significantly, reaching 749.2m shares by 6pm. Activity in non-Footsie stocks accounted for 60 per cent of overall trade. Tuesday's exceptionally heavy programme trading business gave a substantial boost to customer turnover, which topped the \$2bn mark, eventually settling at \$2.08bn. Retail business has topped \$2bn once in the past two weeks, indicating that the institutions have been increasing their exposure to the equity market.

FT-SE-A All-Share Index



Source: FT Data

Equity shares traded



Turnover by volume (million). Excluding intra-market business and overseas turnover

Indices and ratios

FT-SE 100	3544.1	+19.9
FT-SE Mid 250	3988.8	+15.2
FT-SE-A 350	1770.7	+4.2
FT-SE-A All-Share	1749.84	+8.56
FT-SE-A All-Share yield	3.81	(3.83)

Best performing sectors

1. Tobacco	+2.7
2. Chemicals	+1.3
3. Oil, Integrated	+1.0
4. Telecommunications	+0.8
5. Breweries	+0.9

Worst performing sectors

1. Life Assurance	-0.8
2. Banks, Merchant	-0.7
3. Water	-0.6
4. Transport	-0.5
5. Spirits, Wines & Cids.	-0.3

Price cut hopes for chemicals

Hard-pressed chemicals group Courtalds, left behind within the sector because of raw materials worries, bounced back to record the best performance in the FT-SE 100.

The shares had fallen 60p over recent weeks, but Kleinwort Benson picked up on press articles suggesting that the price of raw materials used by the company were stabilising, and possibly falling.

Yesterday, the house was telling clients that acrylonitrile, used in the production of acrylic fibres, appeared to be falling, while wood pulp, up at a record high, could be peaking.

Mr Mike Lewis of Kleinwort Benson commented: "The gross margin pressure they have had from raw materials prices is quite significant. The whole market is waiting to call the turn on this one." As a result, Courtalds shares jumped 15 to 415p on turnover of 1.9m.

Price cut hopes for chemicals

link with Yorkshire, although Yorkshire spokesmen were pouring cold water on the idea.

There was also renewed talk that British Gas might be interested in a utility but the company has apparently been steering city analysts away from that.

Turnover in the stocks remained subdued but, as analysts pointed out, so was the turnover in Southern Electric last week, which raced more than 60p ahead before the company announced it was in talks.

All the bid contenders - except for Northern which had divested much of the share value during its fighting with Trafalgar House - were yesterday, London bounced 14 to 91p, Seaboard 10 to 50p and Swalec 7 to 93p. Northern receded 9 to 77p.

P&O nervous

P&O came in for some nervous selling ahead of today's lunch with institutions and brokers.

The transport leader is pushing out the boat at the Cafe Royal, and following some uninspiring September traffic numbers from Channel tunnel operator Eurotunnel some dealers were taking bets that the news on trading would not be over positive.

P&O's ferry operations account for around 15 per cent of group earnings and in recent months returns on this side of the business have been savaged by heavy price discounting. The shares shed 10 to 480p in 2.7m traded. Eurotunnel eased 2 to 95p.

Leading engineering stock Vickers jumped almost 7 per cent following a reiterated

Price cut hopes for chemicals

undervalued stance from ABN Amro Hoare Govett, which hosted a lunch for institutional investors on Tuesday. The shares closed 17 higher at 262p in 2.5m traded.

Belle-Royce, which is undertaking a series of Scottish presentations this week, added 4 at 182p. Footsie inclusion hopes got behind Smiths Industries. The stock, capitalised at £1.8bn, is one of the Footsie reserves should takeovers lead to gaps in the index. It moved forward 8 to a new high of 597p for a two-day advance of 15p.

Brokers Williams de Broe turned seller on British Steel. The stock saw 6.9m shares traded and finished 3 1/2 lower at 181p.

P&O nervous

In the waters, Northumbrian, seen as a target for Lyonnaise des Eaux, of France, receded 14 to 101p. The market had forecast a bid price of £12 a share but, yesterday,

there were worries that the French company would pay no more than £10 a share.

Also, Yorkshire fell 6 to 654p as Hoare Govett argued that the summer rally for equities against the broad market in the space of a week was too much, too soon. The house advised switching into North West Water, up 3 at 59p.

Construction and building materials stocks showed up prominently in the FT-SE Mid 250 rankings. Investors were said to be casting around for good value and picking up stocks that had stayed outside the summer rally for equities generally. Both sectors have lagged behind the market as a whole by around a fifth over the past year.

Pillington advanced 9 to 205p, helped by a reiterated buy recommendation from Societe Generale Strauss Turnbull. Taylor Woodrow put on 5 to 111p and Wimpey closed 5

Price cut hopes for chemicals

higher at 113p. Wolseley, which puts out full-year results later this month, added 6 at 373p.

That broad trading trends in the industry remain negative was borne out by the interim statement from plant hire specialist Hewden-Stuart. Smith New Court cut its profits estimate for this year by 13 per cent to £37m. The shares dropped 9 1/2 to 133p.

Rumours of boardroom changes, possibly before the end of the month, continued to track electronics giant GEC. The shares closed 15p lower at 330p after another heavily traded session in which 9.1m shares changed hands.

Bank of Scotland's interim results were in line with forecasts but costs were up 17 per cent and the disappointment over the underlying figures was responsible for sending the shares down 7 to 240p, the worst performance in the FT-SE 100.

Price cut hopes for chemicals

Distribution and storage specialist Transport Development cut 6 1/2 to 202 1/2p following a placing of 11.4m shares by NatWest Securities.

Troubled UK exhibitions organiser Blehm, which has now largely completed a restructuring programme gained 16 to 236p after announcing current trading was in line with its budget.

Chemists' chain Boots was a strong feature as the shares appreciated 8 to 591p on reports that the summer's extreme weather had boosted trading.

Talk of a broker downgrade in Great Universal Stores along with concerns about the group's mail order business, left the shares 3 higher at 603p after trade of 2.4m.

Storehouse eased 2 to 300p on nervousness ahead of today's trading statement.

Reduced interim profits from Austin Reed, together with a cautious statement, left the

Price cut hopes for chemicals

market disappointed and the shares fell 3 to 192p. Vague bid talk continued in Lloyds Chemicals. The shares firmed 3 to 247p.

A purchase of 20,000 shares by a First Choice Holidays director helped the shares firm a penny to 69p.

Food manufacturer Unilever put on 7 to 1,264p after Societe Generale Strauss Turnbull was said to have reiterated its buy stance on the stock on hopes of better growth prospects in Europe for the company in 1996.

Morgan Stanley was said to have been the big buyer of Cadbury Schweppes. The shares jumped 12 to 493p, on volume of 3.2m. Hillsdown firmed a penny to 176p, with NatWest Securities said to have advised investors to add to holdings.

Price cut hopes for chemicals

Further broker's recommendations helped boost Whitbread and the shares put on another 5 to 836p, on volume of 2.3m.

LONDON RECENT ISSUES: EQUITIES

Issue	Price	Yield	Div.	Div. Yield	P/E	Div. Yield	P/E
10.00	1.41	71	50	Commerzbank	84	-	-
10.00	1.41	71	50	Commerzbank	84	-	-
10.00	1.41	71	50	Commerzbank	84	-	-

Price cut hopes for chemicals

FT GOLD MINES INDEX

Gold Mines Index (34)	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
100	100	100	100	100	100	100	100

Price cut hopes for chemicals

FT-SE Actuaries Share Indices

Index	Oct 4	Oct 3	Oct 2	Oct 1	Sept 29	Sept 28	Sept 27	Sept 26	Sept 25	Sept 24	Sept 23	Sept 22	Sept 21	Sept 20	Sept 19	Sept 18	Sept 17	Sept 16	Sept 15	Sept 14	Sept 13	Sept 12	Sept 11	Sept 10	Sept 9	Sept 8	Sept 7	Sept 6	Sept 5	Sept 4	Sept 3	Sept 2	Sept 1	Aug 31	Aug 30	Aug 29	Aug 28	Aug 27	Aug 26	Aug 25	Aug 24	Aug 23	Aug 22	Aug 21	Aug 20	Aug 19	Aug 18	Aug 17	Aug 16	Aug 15	Aug 14	Aug 13	Aug 12	Aug 11	Aug 10	Aug 9	Aug 8	Aug 7	Aug 6	Aug 5	Aug 4	Aug 3	Aug 2	Aug 1	July 31	July 30	July 29	July 28	July 27	July 26	July 25	July 24	July 23	July 22	July 21	July 20	July 19	July 18	July 17	July 16	July 15	July 14	July 13	July 12	July 11	July 10	July 9	July 8	July 7	July 6	July 5	July 4	July 3	July 2	July 1	June 30	June 29	June 28	June 27	June 26	June 25	June 24	June 23	June 22	June 21	June 20	June 19	June 18	June 17	June 16	June 15	June 14	June 13	June 12	June 11	June 10	June 9	June 8	June 7	June 6	June 5	June 4	June 3	June 2	June 1	May 31	May 30	May 29	May 28	May 27	May 26	May 25	May 24	May 23	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	April 30	April 29	April 28	April 27	April 26	April 25	April 24	April 23	April 22	April 21	April 20	April 19	April 18	April 17	April 16	April 15	April 14	April 13	April 12	April 11	April 10	April 9	April 8	April 7	April 6	April 5	April 4	April 3	April 2	April 1	March 31	March 30	March 29	March 28	March 27	March 26	March 25	March 24	March 23	March 22	March 21	March 20	March 19	March 18	March 17	March 16	March 15	March 14	March 13	March 12	March 11	March 10	March 9	March 8	March 7	March 6	March 5	March 4	March 3	March 2	March 1	February 28	February 27	February 26	February 25	February 24	February 23	February 22	February 21	February 20	February 19	February 18	February 17	February 16	February 15	February 14	February 13	February 12	February 11	February 10	February 9	February 8	February 7	February 6	February 5	February 4	February 3	February 2	February 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6	November 5	November 4	November 3	November 2	November 1	October 31	October 30	October 29	October 28	October 27	October 26	October 25	October 24	October 23	October 22	October 21	October 20	October 19	October 18	October 17	October 16	October 15	October 14	October 13	October 12	October 11	October 10	October 9	October 8	October 7	October 6	October 5	October 4	October 3	October 2	October 1	September 30	September 29	September 28	September 27	September 26	September 25	September 24	September 23	September 22	September 21	September 20	September 19	September 18	September 17	September 16	September 15	September 14	September 13	September 12	September 11	September 10	September 9	September 8	September 7	September 6	September 5	September 4	September 3	September 2	September 1	August 31	August 30	August 29	August 28	August 27	August 26	August 25	August 24	August 23	August 22	August 21	August 20	August 19	August 18	August 17	August 16	August 15	August 14	August 13	August 12	August 11	August 10	August 9	August 8	August 7	August 6	August 5	August 4	August 3	August 2	August 1	July 31	July 30	July 29	July 28	July 27	July 26	July 25	July 24	July 23	July 22	July 21	July 20	July 19	July 18	July 17	July 16	July 15	July 14	July 13	July 12	July 11	July 10	July 9	July 8	July 7	July 6	July 5	July 4	July 3	July 2	July 1	June 30	June 29	June 28	June 27	June 26	June 25	June 24	June 23	June 22	June 21	June 20	June 19	June 18	June 17	June 16	June 15	June 14	June 13	June 12	June 11	June 10	June 9	June 8	June 7	June 6	June 5	June 4	June 3	June 2	June 1	May 31	May 30	May 29	May 28	May 27	May 26	May 25	May 24	May 23	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	April 30	April 29	April 28	April 27	April 26	April 25	April 24	April 23	April 22	April 21	April 20	April 19	April 18	April 17	April 16	April 15	April 14	April 13	April 12	April 11	April 10	April 9	April 8	April 7	April 6	April 5	April 4	April 3	April 2	April 1	March 31	March 30	March 29	March 28	March 27	March 26	March 25	March 24	March 23	March 22	March 21	March 20	March 19	March 18	March 17	March 16	March 15	March 14	March 13	March 12	March 11	March 10	March 9	March 8	March 7	March 6	March 5	March 4	March 3	March 2	March 1	February 28	February 27	February 26	February 25	February 24	February 23	February 22	February 21	February 20	February 19	February 18	February 17	February 16	February 15	February 14	February 13	February 12	February 11	February 10	February 9	February 8	February 7	February 6	February 5	February 4	February 3	February 2	February 1	January 31	January 30	January 29	January 28	January 27	January 26	January 25	January 24	January 23	January 22	January 21	January 20	January 19	January 18	January 17	January 16	January 15	January 14	January 13	January 12	January 11	January 10	January 9	January 8	January 7	January 6	January 5	January 4	January 3	January 2	January 1	December 31	December 30	December 29	December 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1	September 30	September 29	September 28	September 27	September 26	September 25	September 24	September 23	September 22	September 21	September 20	September 19	September 18	September 17	September 16	September 15	September 14	September 13	September 12	September 11	September 10	September 9	September 8	September 7	September 6	September 5	September 4	September 3	September 2	September 1	August 31	August 30	August 29	August 28	August 27	August 26	August 25	August 24	August 23	August 22	August
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Rockwell

ed	4.25	- .05	4.50	3.50
on	102	+1.75	105	79.50
r	3.70	+ .05	6.00	2.60

■ CAC-60 (index)													■ NIKKEI 225 (index)													■ TOKYO - MOST ACTIVE STOCKS Wednesday, October 4, 1995												
Oct	1778.0	1811.0	+23.0	1814.0	1775.0	15060	30,028	Nov	1492.0	1493.0	-8.00	1450.0	1447.0	3,788	15,807	Mr	590.75	590.30	-0.30	590.75	590.25	388	7,268															
Nov	1785.5	1819.5	+24.0	1818.5	1785.5	129	2,947	Nov	1493.0	1464.50	-17.00	1464.50	1457.50	2,000	1,120																							
■ SOFFEX													■ NIKKEI 225 (index)																									
Oct	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Nov	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Nov	2224.5	2235.5	+10.00	2245.5	2230.5	232	1,950	Nov	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Dec	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Dec	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Jan	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Jan	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Feb	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Feb	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Mar	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Mar	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Apr	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Apr	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
May	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	May	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Jun	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Jun	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Jul	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Jul	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Aug	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Aug	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Sep	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Sep	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Oct	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Oct	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Nov	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Nov	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Dec	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Dec	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Jan	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Jan	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Feb	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Feb	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
Mar	2221.5	2215.5	-6.00	2230.0	2209.0	11,342	73,482	Mar	3030.0	3045.5	+15.50	3030.0	3030.0	4,312	15,017	Mr	1284.00	1281.50	-2.50	1289.00	1281.00	25,750	151,272															
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NASDAQ NATIONAL MARKET

1 pm close October 4

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AMERICA

Technology shares
retreat in low volume

Wall Street

Investors continued to batter technology shares in early trading yesterday, bringing losses in the Nasdaq composite, which is weighted towards that sector, to nearly 5 per cent in the past week and a half, writes *Lisa Branstetter* in New York.

At 1 pm the Nasdaq composite was 18.50 lower at 1,001.95. The Pacific Stock Exchange technology index added a decline of 2.8 per cent to the 0.9 per cent it lost on Tuesday.

Volumes were very thin due to the Yom Kippur holiday. Leading the technology decline were semiconductor shares. Five of which were downgraded by an analyst at SoundView Financial Group who said that an easing of the semiconductor shortage could have an impact on prices.

LSI Logic was the hardest hit of the companies included in the report, falling 11 per cent or \$6 to \$50. The others were: Integrated Device Technology, off 10 per cent or \$24 to \$219; VLSI Technology, 8% lower at \$281; and National Semiconductor, down 8% to \$25.

Other sectors posted more modest losses, with the Dow

Jones Industrial Average underperforming the more broadly based Standard & Poor's 500 as fears about poor third-quarter earnings continued to weaken cyclical shares. The Morgan Stanley index of cyclical shares shed 1.5 per cent in early trading yesterday.

Weak cyclical issues in the Dow included Du Pont, 1 1/4% cheaper at \$54. International Paper, 1 1/4% lower at \$39, and United Technology, which shed 1 1/4% to \$83.

At 1 pm the Dow was off 20.23 at 4,729.47, while the S&P 500 dipped 2.14 to 580.20 and the American Stock Exchange composite lost 3.95 at 532.75. NYSE volume came to 198m shares.

US Treasuries were steady as auction data on August manufacturing orders and the index of leading economic indicators were both in line with the median estimates from economists. The dollar, however, softened as traders took some profits before this week-end's meeting of the G7 finance ministers.

Bankers Trust declined 1 1/4% to \$69 after a judge allowed Procter & Gamble to add a rackering charge to its lawsuit against the US bank. P&G added 1/4% to \$78.

Canada

Toronto drifted lower at midday as the market entered the traditional October doldrums. The TSE 300 composite index eased 6.81 to 4,492.68 in volume of 36.4m shares.

Financials were mostly firm, with Bank of Nova Scotia ahead 1/4% at C\$29 1/2, but Bank of Montreal gave up an early advance to trade 1/4% down at C\$30 1/2.

Leaders among losing stocks included the Four Seasons Hotels chain, which dropped C\$1 to C\$16, and the software maker Softquad International, which fell C\$4 to C\$34.

Another falling issue was

Telecomm Electronics, which

made satellite television

disks, down C\$1 to C\$17.

after its sharp rise during the

past few sessions.

IMF says world resilient to market turmoil

However, relatively optimistic global outlook carries a financial health warning, writes Robert Chote



The world economy has proven resilient to recent turmoil in the financial markets, the International Monetary Fund said yesterday. Although the Fund has become more pessimistic about the outlook for the industrialised economies, it has upgraded growth forecasts for many developing countries and some of those making the transition from communism.

The world economy is expected to grow by 3.7 per cent this year and 4.1 per cent in 1996. These growth rates are a little above the average recorded since the 1970s and would take the value of global output to more than \$30,000bn at market exchange rates for the first time next year.

Developing countries are forecast to enjoy economic growth of 6 per cent or more this year and next, outstripping the less than 3 per cent expansion of the industrialised economies as they have done for the last 25 years. Developing nations produce about 40 per cent of world output, compared with the 55 per cent accounted for by industrial countries and the 5 per cent produced by those in transition. On present trends the developing countries should overtake the industrialised ones in less than a decade.

Developing countries have benefited from greater openness and integration with the rest of the world economy and - unusually - growth in the developing world has been relatively unaffected by the most recent slowdown in the industrial world. Greater efficiency in agriculture has allowed developing countries to broaden their export base by expanding manufacturing,

while they have also diversified their export markets.

In the wake of Mexico's financial crisis, capital inflows to developing countries have weakened from the record levels recorded in the first half of the decade. Net inflows are predicted to run at a little under \$120bn this year and next, down from an average of nearly \$150bn over the previous four years but well up on the \$30bn a year recorded in the second half of the 1980s. The Fund calculates that if policy failures in the industrial countries reverse capital flows next year by raising long-term interest rates output in the developing world could be 4

per cent lower than it would otherwise be by the end of the decade.

Trade is expected to remain an engine of global growth, having expanded at almost twice the pace of world output over the last 25 years. World trade in goods and services is predicted to decelerate a little this year and next, but still to grow by 6.5 per cent in 1996.

Japan is expected to continue losing its share of world markets, with its export volumes likely to have gone up by only 6 per cent between 1991 and 1996 compared with a 34 per cent rise in world trade over the same period. After seeing its market share drop by a fifth since the 1970s, the UK is expected to gain share both this year and next.

The Fund warned that its relatively optimistic forecast was clouded by risks in both the short and medium term. Policy weaknesses in the

industrialised countries threatened to provoke renewed turbulence in financial markets. Many developing countries risked overheating because of rapid growth or because of the difficulties of managing capital inflows. Transition economies might suffer setbacks in their stabilisation efforts in part because of the fragility of their financial systems.

Among the industrial countries, Japan is mired in one of its worst economic slowdowns since the second world war and needs to do more to kickstart recovery. But the IMF warned policymakers in North America and Europe that they should not overreact to signs

of weaker growth on their own home ground, especially as their continued high levels of government borrowing provided little room for manoeuvre on interest rates.

Slower growth should be welcomed in the US - and in countries such as the UK and Australia whose cycles are closely synchronised with it - as it alleviates inflationary pressure. The slowdown in continental Europe at first glance appeared more worrying because recovery there only got under way in 1993. But lower long-term interest rates and calmer financial markets are expected to allow growth there to continue at a little above its long-term trend rate.

"The storm that broke with the financial crisis in Mexico has been weathered well by most emerging market economies," the IMF argued. It added that the maintenance of

market confidence and continued solid economic performance in most countries was testament to the progress made in promoting financial stability and market-oriented structural reforms.

The Fund predicted that Mexico's economy should soon begin to recover. In Latin America as a whole growth will be much lower this year than last, helping to reduce inflation. But growth should pick up again to 4 per cent in 1996.

The risk of overheating among developing countries is greatest in Asia, where the upward revisions to growth forecasts have been most significant. Continued high levels of capital inflows are contributing to upward pressures on demand in countries with inflexible exchange rates. Growth in Asian developing countries is expected to average more than 8 per cent for the fourth year running.

Growth prospects now look brighter in Africa as a growing number of countries adopt market-oriented reforms. Growth in Africa is likely to accelerate from 3 per cent this year to 5.2 per cent in 1996. But significantly higher growth will be needed to improve living standards with many countries in the region still suffering from falling or stagnant per capita incomes, widespread poverty and unsustainable levels of debt. In much of sub-Saharan Africa debt burdens exceed four times export earnings.

"Few countries appear to have any realistic hope of servicing debt burdens of such a magnitude," the Fund said.

Economic performance in the transition economies varies from country to country, depending largely on how far down the road to economic sta-

World economic prospects

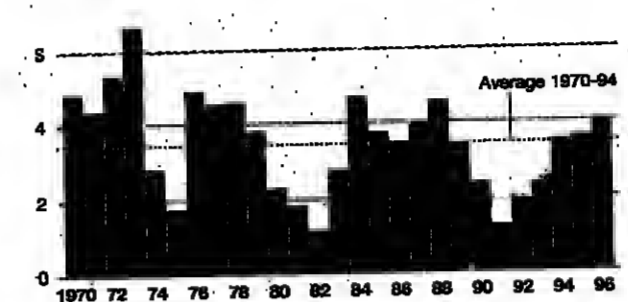
Developing and industrial countries

Output growth, %



World indicators

Real GDP growth, %



Source: World Economic Outlook

bilisation and restructuring they have travelled. The more advanced countries - such as Poland, Hungary and the Czech Republic - are enjoying robust growth, helped by buoyant investment and trade growth. Laggards such as Russia, Belarus and Ukraine have seen output continue to decline into this year, even though official statistics may exaggerate the scale of decline.

The Fund noted that the fragility of financial systems was an important weakness in many transition economies. The accumulation of bad loans

has continued during the early years of the transition, even among recently formed institutions. The problem of loans to ailing enterprises had to be tackled, while there was a need for tougher prudential supervision, better assessment of credit risk, more stringent capital requirements and greater access for foreign banks.

The Fund said that the transition economies needed a comprehensive strategy for the reform of their financial systems - what was good enough for Japan was good enough for them.

Tokyo urged to provide fresh spur to growth

By Robert Chote, Economics Editor, in Washington

The Japanese government's ¥14,000bn (\$138bn) stimulus package last month has significantly improved prospects for recovery but more needs to be done to reinvigorate the economy, the International Monetary Fund said yesterday.

The package, unveiled on September 20, is forecast to widen Japan's structural budget deficit - excluding social security - from 5.5 per cent of national income this year to 6.3 per cent in 1996.

Without the package the deficit would have narrowed from 4.9 to 4.7 per cent.

The Fund said the measures would probably mean that growth would be higher than its central forecast of 2.2 per cent next year, with a 3 to 4 per cent expansion feasible. But it said that the government would have to start reining in its borrowing as soon as the upturn was safely entrenched.

IMF economists warned that Japan's output was likely to remain 6 per cent below its potential level next year even if growth accelerated. Unemployment, already at a record high, was likely to rise further in the absence of a strong recovery.

"The persistent weakness of activity is due to the combined effects of sluggish domestic demand, which is affected by balance sheet difficulties that arose after the bursting of the asset price bubble, the overhang of excess capital stocks and the strength of the

exchange rate," the Fund argued.

Mr Michael Mussa, the IMF's economic counsellor, said the recovery projected for next year was much weaker than would normally be expected in a country where output was so far below potential.

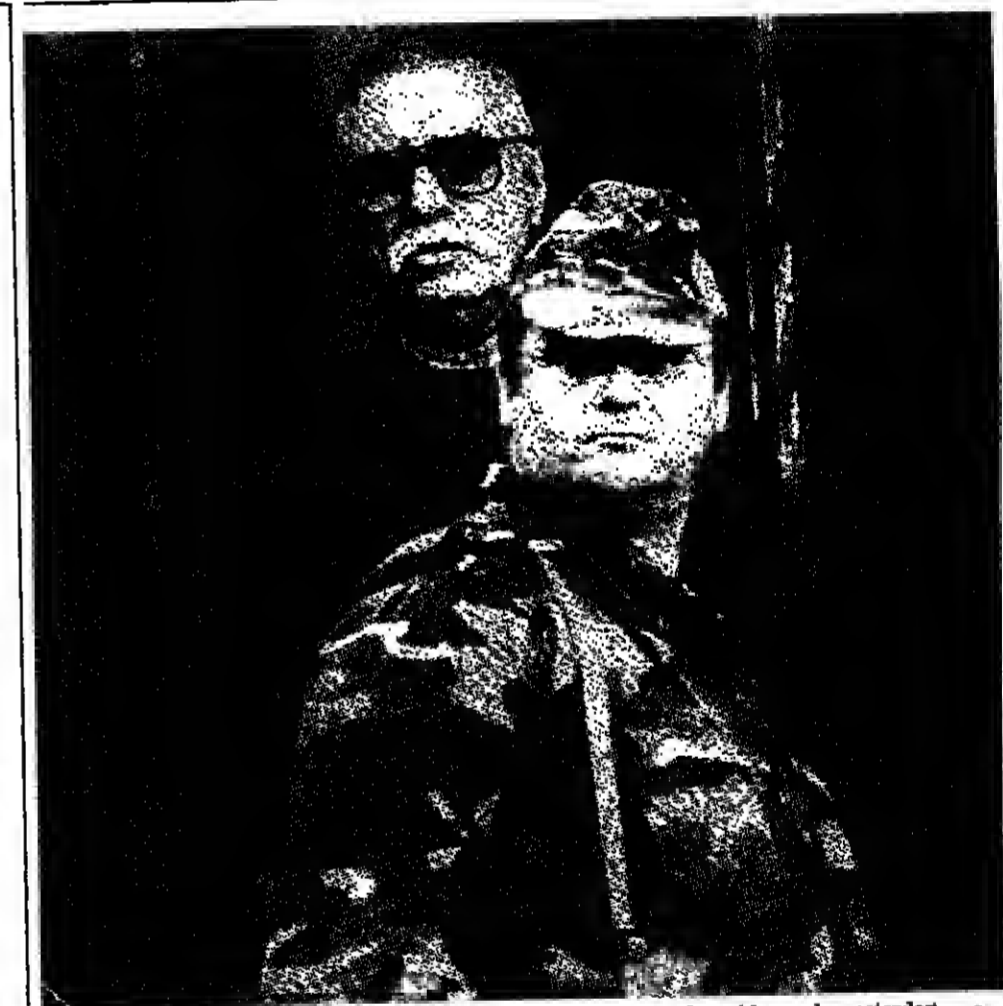
He said growth would be restrained as Japan's larger banks rebuilt their balance sheets by widening the spreads between the interest rates charged to lenders and offered to depositors.

Recent cuts in official interest rates had been useful, but "given the overall tepid economic environment, it is important for the authorities to keep the supply of liquidity ample," the Fund said.

The recent managed closure of some financial institutions was an important step toward the resolution of the bad loan problem, but other institutions might need restructuring, Mr Mussa said.

The government should facilitate loan write-offs, encourage the use of loan securitisation, make more flexible use of deposit insurance funds and address the problems of housing loan companies.

Mr Mussa said there were more small financial institutions whose losses should be recognised and which should be closed or merged. Public money would be needed to tackle the problem. Japan also needed to tackle the over-regulation of its economy, which was slowing the pace of adjustment and concentrating the pain of change in sectors facing international competition.



Mercenary Bob Denard, with spectacles, directs operations from Moroni barracks yesterday

Comoros coup ends as French troops swoop

By Michela Wrong and Agencies

The coup in the Comoro islands in the Indian Ocean ended yesterday when mercenary Bob Denard handed over his hostage, President Said Mohamed Djohar, after a military intervention by French troops.

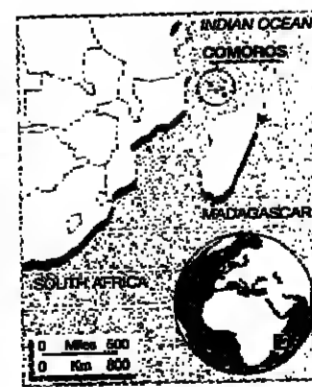
After hundreds of French paratroopers, marines and infantry had fanned across the main island of Grand Comore following yesterday's pre-dawn aerial and naval assault, Mr Denard, a 66-year-old French adventurer, prepared to negotiate his surrender.

Last night the French Defence Ministry, which had earlier announced that Mr Denard had already surrendered, retracted the statement and said he was still holed up in the Kandani barracks in Moroni, the islands' capital, surrounded by French troops.

"We are waiting for him to take his decision and we hope that will be done quickly," an official said. Mr Djohar had been handed over unharmed to the French embassy.

French officials said four or five Comorans had died during the military intervention and that about 10 people were injured.

In Paris, the French foreign ministry said Mr Saabi Elyachrouh Mohamed, the Comoros prime minister, who had



prime minister, had said there was "no question" of an intervention.

However, officials in Paris said yesterday that President Jacques Chirac, anxious not to give the impression to friendly African countries that France still gave its tacit backing to Mr Denard's African escapades, had given orders for an operation 24 hours after the raid six days ago by Mr Denard and two dozen fellow mercenaries.

The collapse earlier this week of a political coalition set up by coup leader Captain Ayombo Combo to lead the Comoros to elections, and growing signs of hostility among the islanders toward the mercenaries, must also have encouraged Paris to give the final order.

Mr Denard's prospects now look bleak.

In 1989, following the death of previous Comoros President Ahmed Abdallah, he was allowed to fly out to exile in South Africa under the watchful eye of French troops. This time South Africa has refused to take him in and France has promised to put him on trial if he was caught.

Quizzed about his future on French television yesterday, Mr Denard's reply was characteristically blunt: "I think it would be Le Saint," he said, referring to one of France's main prisons.

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NEWS: UK

The economy Many manufacturers in region expect to cut working hours amid faltering exports

Companies warn of slide into recession

By Paul Cheeseright
in Birmingham
and Gillian Tett in London

Business conditions are now gloomier than at any time in the past two years, companies in the West Midlands warned yesterday. Many manufacturers in this important industrial region expect to cut working hours towards the end of the year amid faltering exports.

The warning reflects a sharp change in mood in the West Midlands, which is likely to fuel concern about the state of the economy. The region was among the first to signal recovery three years ago.

Recent official figures, which were collected two to three months ago, have suggested that manufacturing output and export growth have slowed. Treasury officials and most City economists insist that this

fall will be reversed later this year, as overseas demand picks up and consumer spending rises. However, business leaders at the West Midlands Confederation of British Industry council yesterday argued that the UK could drift back into recession unless there was a change in government policy. They called for moves to stimulate the housing and construction markets and for cuts in interest rates.

Mr Jeremy Woolridge, chairman of the regional council, said: "This is a temporary slowdown which could be turned round if some proactive government action is taken. If they just sit and watch it, we might find ourselves back in the recession."

Meeting in Birmingham yesterday the 45 members of the regional council drew attention to the high level of stocks held

by companies and predicted that these would lead to short-time working.

The automotive sector was suffering particular problems, they added. Figures published earlier this week showed a sharp fall in national car exports during the summer, and Ford recently announced plans to reduce production at its Halewood plant in north-west England.

Other manufacturers also predicted change: "It's a bit quieter since July. It's a bit tougher to get the orders and inquiries are not so buoyant," said Mr Howard Marshall, managing director of Ash & Lacy, the Birmingham metals processor. He acknowledged that stocks could be too high after a build-up in the first four months of the year.

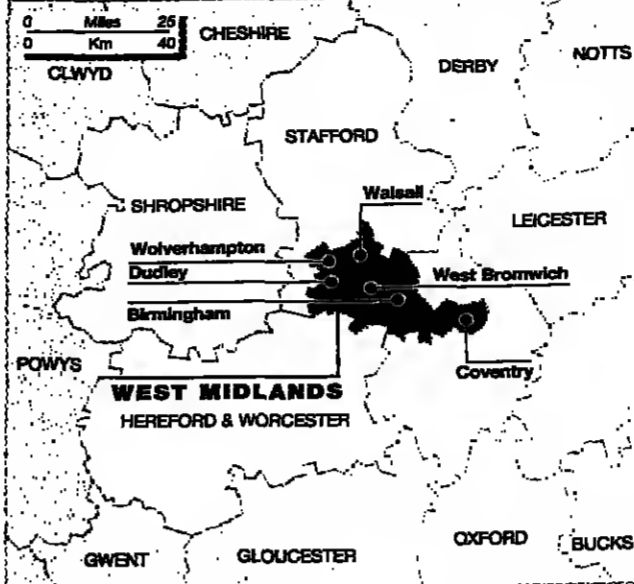
Mr David Groves, chairman of Grove Industries, a Strat-

ford-upon-Avon private engineering group, reported that "there are one or two traditional areas where there are cutbacks in the manufacturing schedules," mentioning the automotive sector, waste and office flooring.

These comments mark a sharp change of sentiment since last month when the local CBI canvassed local members and found that order books were healthy and that, although some companies were not working at full capacity, the reduction was insignificant.

The CBI in London is due to publish its next quarterly survey of manufacturing across the country later this month.

Meanwhile the Treasury insisted that the "fundamentals in the economy remained healthy - we are looking at sustainable growth."



IMF warns against 'backsliding' with tax cuts

By Robert Chote, Economics Editor,
in Washington

The International Monetary Fund yesterday warned Mr Kenneth Clarke, the UK chancellor of the exchequer, not to cut taxes in November's national Budget unless the impact on government borrowing was offset by reductions in public spending plans.

In its latest World Economic Outlook the Fund said it was important for the UK to "avoid slippages in fiscal consolidation efforts", noting that public debate about tax cuts had highlighted the risk of "backsliding". Mr Michael Mussa, the IMF's economic counsellor, said that government revenues were rising more slowly than expected because economic growth had eased.

The IMF also warned that the gov-

ernment had not yet done enough to establish the credibility of its anti-inflation policy. Mr Mussa said it was important to consolidate the recovery through a period of more moderate growth and that "the evidence seems to be that the economy remains a bit weak". He added that it was too soon to be sure whether interest

rates would need to rise again. The Fund expects the UK economy to grow by 2.7 per cent this year compared with the 3.2 per cent it predicted in its last published forecast in April. Growth is then expected to accelerate to 2.9 per cent in 1996, a slightly more optimistic prediction than in both the Fund's April forecast

and its subsequent unpublished summer forecast.

The IMF believes that there is still slack in the UK economy and that output will be about 1 per cent below its potential level next year. This "output gap" should be eliminated by the end of the decade, by which time government borrowing will have dropped only to 0.6 per cent of national income rather than being eliminated entirely as the government has predicted in its last two budget statements.

Unemployment is meanwhile predicted to drop gradually from 8.3 per cent of the labour force this year to 8.1 per cent in 1996. This reflects a forecast of 0.6 per cent employment growth in both years, downgraded from April's predictions of 1.4 per cent for 1995 and 0.9 per cent for 1996. The

current account deficit is meanwhile expected to widen from 0.3 per cent of national output last year to 0.7 per cent this year, before narrowing again to 0.4 per cent in 1996. In April the Fund predicted a current account deficit of 0.2 per cent of national income in both 1995 and 1996.

The outlook for inflation is also slightly more threatening than it appeared in April. The Fund is now predicting that the government's target measure of underlying retail price inflation - which excludes mortgage interest payments - will accelerate from 2.9 per cent this year to 3 per cent in 1996. In April it had predicted that the annual rate of price increases would drop next year to 2.8 per cent. The government wants underlying inflation at or below 2.5 per cent from the spring of 1997.

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UK NEWS DIGEST

Top US official starts talks with Ireland parties

Ms Nancy Soderberg, staff director of the White House National Security Council, met leading Northern Ireland politicians in Belfast yesterday at the start of a week-long visit to Ireland. She was accompanied by Admiral William Crowe, US ambassador to Britain.

US officials described her talks, which will move to the Republic of Ireland before she returns to Washington, as a fact-finding exercise. Here first meeting yesterday was with Mr David Trimble, leader of the pro-British Ulster Unionists, the largest party in Northern Ireland, in a bid to break the impasse over the Northern Ireland peace process.

The Ulster Unionist Party's new leader David Trimble was among the first due to meet with who was accompanied by the US Ambassador to Britain, Admiral William Crowe. Admiral Crowe was asked after the meeting if he thought it was President Bill Clinton's role to put pressure on the nationalist Sinn Féin party on the Irish Republican Army. "No, I do not," he replied. "Most of the world wants the President of the United States to put pressure on somebody or other. This is your negotiation, not ours."

US officials said Ms Soderberg would not offer any specific proposal. But her visit, coming ahead of the planned presidential visit to Belfast, Dublin and London at the end of November, will be seen as evidence of US concern to restore momentum to the stalled 13-month-old peace process.

Mr Trimble told reporters after meeting her that the IRA would still need to take its weapons out of commission before Sinn Féin could be admitted to all-party talks on the future of Northern Ireland.

John Murray Brown, Dublin

Mutuality benefit stressed

Savers and borrowers with Yorkshire Building Society should benefit next month from better interest rates as the society shifts its strategy to underline the benefit of being part of a mutually-owned organisation. Building societies are mutually owned savings and loans institutions which face increasing competition from banks.

The move, which will cost £20m (\$31m) next year, will put pressure on other societies which have said they want to pass on to customers the benefits of mutuality. Most of the large societies have announced or are likely to announce moves to become public limited companies which should give their members bonuses of a few hundred pounds each. Societies which want to avoid this course have felt increasingly defensive about how to make customers see the benefit of remaining mutual. Yorkshire's scheme will reinforce its own position as a society determined not to be taken over, but not all of those which wish to remain independent and mutual will have the capital strength to make a substantial offer. Just over half the cost of Yorkshire's scheme will go in cutting the standard mortgage rate to 7.55 per cent - just 0.12 percentage points above the rate currently offered by Cheltenham & Gloucester, the mortgage lending arm of Lloyds Bank.

Alison Smith, Financial Staff

Drugs seized near Heathrow

Police found 2m capsules of the sleeping drug Temazepam in a truck near London's Heathrow airport. A raid on a small industrial estate where the truck was found was part of a much wider undercover operation. Four men were arrested after the find in the truck. Two were released without charge and the remaining two are expected to be questioned for some time as the investigation is widened. Temazepam is Britain's most prescribed sleeping drug, but has recently become popular among drug addicts. They mix it with heroin and inject it.

PA News

Reinsurance ruling by court

Reinsurance companies, which protect conventional insurers against big losses, cannot avoid paying claims on policies on the grounds that they had not been authorised by government regulators, the Court of Appeal in London has ruled. Mr Roger Enock, partner at Freshfields, the law firm, described as "a landmark decision" the judgment in the case of Group Josi Re, the Belgium reinsurer. Group Josi, which sold insurance in the London market, had sought to avoid liability on policies sold before a change in the law in 1986.

Ralph Atkins, Insurance Correspondent

Tourism heads for record

A record total of 2.62m overseas visitors came to the UK in July; the previous highest monthly total was 2.58m in August last year. The July figures mean the total number of visitors for the first seven months of the year is 12.85m, 11 per cent up on the same period last year. They spent £8.06bn, (\$9.35bn) a 15 per cent increase over last year.

Mrs Virginia Bottomley, National Heritage Secretary, said the figures were further evidence that the UK was heading for a record year for overseas visitors. Mr Anthony Sell, chief executive of the British Tourist Authority, said the record figures were no reason to relax efforts. "We lost market share during the late 1980s and early 1990s and now need to claw that back."

Diane Summers, Marketing Correspondent

IBM awards vending deal: Compass, which in July became the world's biggest contract catering company with the FF4.5bn purchase of Euresit International, has won a five-year contract with IBM in the US. Canteen, the group's US subsidiary, said yesterday that the contract was worth \$250m (£161m) to revenues. Canteen will provide both food and vending services to more than 100,000 IBM employees on 29 sites.

Data contract: The Ordnance Survey, the UK national mapping agency, has signed a contract with European Geographic Technologies, a Netherlands-based subsidiary of Navigation Technologies of California, which makes databases for electronic car navigation systems. Under the agreement it will supply specialist data products.

Workers set to win EU rights over consultation

By Robert Taylor,
Employment Editor

British workers will have the legal right to be consulted by their employers over collective redundancies and transfer of ownership in order to comply with European law under a UK government regulation to be announced today.

The measure, which is expected to win parliamentary approval later this month, follows last year's judgement by the European Court of Justice in Luxembourg that the UK was not fully adhering to the EU directives about the rights of workers to representation.

Union leaders believe the government has decided to do the minimum necessary to meet the court's ruling. The government's measure is

expected to require all UK employers to consult their workers either through a recognised trade union or a representative body of employees in each company elected by them to be consulted on any collective redundancy transfer of the company's ownership.

Union leaders fear that the government's proposal will not require the creation of permanent workplace consultative bodies. They also believe the government will enable employers to bypass and weaken recognised unions. They also dislike the probable provision which will limit use of the measure only to cases of redundancy and transfer of ownership that cover more than 30 employees over a 90-day period.

It was as long ago as 1975

that the UK transposed the EU directive on collective redundancies into domestic law. In 1981 the UK passed legislation to implement the EU directive on transfer of undertakings.

But the European Commission was dissatisfied with the UK's limited implementation of the two directives and took the UK to the European Court for its adjudication.

The court ruled against the UK position, arguing its domestic law to ensure employee consultation was unsatisfactory.

The judges said Britain had to modify the legislation, enabling all employees not just those in recognised unions to enjoy representation in collective redundancy and transfer of undertakings.

مكتبة جامعة القاهرة

Reform may aid financial advisers

By Alison Smith in London

A wide-ranging review of financial services regulation which could reduce the burden on retail investment companies was announced yesterday by Mr Andrew Large, chairman of the main City regulator.

Mr Large, who heads the Securities and Investments Board, said that since the introduction in January of the regime requiring life assurance, pensions and investment sales agents to give more information to customers, regulators needed to see whether there was a "disclosure dividend" from which companies should benefit.

"We must now consider whether there is a trade-off between better quality disclosure to the customer and other regulatory constraints on retail investment firms," he said in the second annual Britannia Caledonian lecture in Glasgow. He called for a look at the cumulative effect of the controls now in place to see whether they amounted "to more than is necessary in a better-trained, more transparent, better disciplined retail sector".

His comments will be welcomed by many life assurance and investment companies which believe that regulation is too prescriptive and expensive. In particular, some have complained about the costs of meeting new training standards, and about how the disclosure regime has slowed the selling process and so affected sales volumes. However, the detailed rules on sales prac-

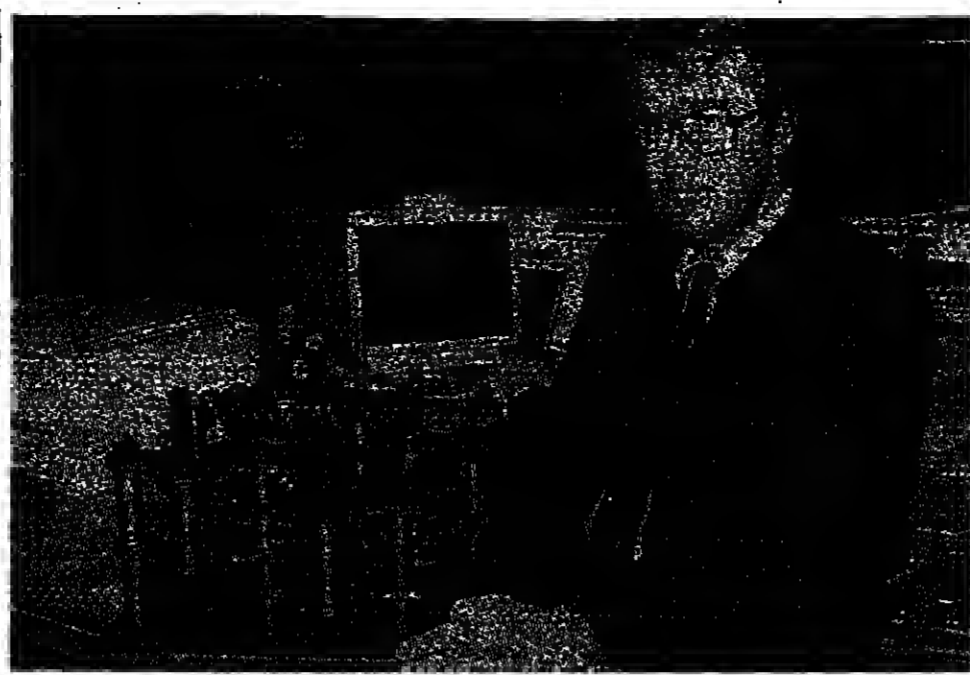
tices which he suggests might be superseded by a more supervisory system of regulation were themselves put in place because the financial regulators were not satisfied with the standards companies adopted under the broader regime which was set up when the Financial Services Act 1986 was implemented.

The shift to supervisory techniques, which focus more on the organisations' structures than on devising rulebooks, was one of three areas Mr Large highlighted for inclusion in the review. The others were the scope for weeding out "mindless box-ticking", and whether the structure of the sector should be changed.

This idea of looking again at the split between sales agents who sell the policies of just one company and those who give independent advice, and perhaps allowing some advisers to be linked to more than one company in a "multi-tie", would attract great controversy within the sector. Some life offices which sell through independent advisers believe this change could undermine their method of selling.

Mr Large said he expected regulators to seek comments from the companies and from consumer representatives over the course of next year, though he would not set a date for implementing any changes.

He acknowledged that it was difficult to alter the regulatory regime while the problem of compensating the victims of bad advice to take a personal pension was so far from resolved.



Eric Turner, a curator at London's Victoria & Albert Museum, is pictured with a part of Charles Babbage's Difference Engine, an early version of a calculator, which was yesterday sold at auction for £176,750 (\$279,365). It had been expected to fetch around £50,000 at Christie's in London, but a telephone bidder acting for the Powerhouse science museum in Sydney, Australia, secured the item

Power groups' freight plan

By Charles Batchelor, Transport Correspondent

British Nuclear Fuels and National Power, the electricity generator, are to launch bulk freight services on the UK rail network within the next few weeks in the first test of the government's commitment to bringing new operators on to railways.

Both companies have previously hired train crews and locomotives from British Rail, the state network. For their new venture they have recruited their own drivers and bought their own locomotives and, in the case of National Power, their own wagons.

Bulk freight movements are at present handled by three regional, soon-to-be-privatised freight companies created from BR's Trainload Freight divi-

sion but the government has said it wants "open access" for new freight operators. This contrasts with the passenger rail network where open access has been postponed until 1999 to give the franchised train companies a chance to get established.

Attempts by new entrants to establish a foothold in the freight market have been frustrated by difficulties in obtaining secondhand locomotives, the high cost of insurance and the complexity proving that their safety procedures are effective.

National Power has bought five new locomotives from General Motors of the US and 85 British-designed wagons. These will carry 6m tonnes of coal a year - a third of the company's total requirement - from the Selby coalfield to the

Drax power station in North Yorkshire. The company has made a total investment of £20m and recruited 50 people to run it. Former BR drivers have been employed and National Power has established its own maintenance depot at Ferrybridge, West Yorkshire.

National Power said that running its own freight operation will put it in a better position to negotiate with the former BR freight companies over its contracts with them and give it some spare capacity to sell to third parties. It plans to start running its trains once its safety case has been approved by Railtrack.

BNFL has set up a subsidiary, Direct Rail Services, to take over the management of its freight operations. The company has bought five second-hand locomotives.

German court clears Leeson transfer hurdle

By Wolfgang Münchow in Frankfurt and John Gapper in London



A German high court has cleared the first legal hurdle for the extradition of Mr Nick Leeson, the futures trader wanted by Singapore on a series of fraud charges in connection with the collapse of the Barings merchant bank.

The decision is only the first in a series of legal and political steps required under German law. Lawyers for Mr Leeson, who is held in a Frankfurt jail, yesterday said they would appeal to the German Constitutional Court.

The Frankfurt court ruled that 11 of the 12 charges brought by Singapore constituted admissible grounds for extradition. They include three charges of forgery, two charges of fraud against Barings Futures Singapore and six charges of fraud against Simex, the Singapore futures exchange.

The high court struck out one of the four forgery charges, because the alleged offence would not have been punishable under German law. This relates to a charge that Mr Leeson forged a document, which he produced as a photocopy without pretending to present an original.

Mr Hans-Hermann Eckert, a Frankfurt prosecutor, said that Mr Leeson's "chances of not going to Singapore are now very small". He said that "according to the information

from the German embassy in Singapore, the minimal legal standards are guaranteed, and he will receive a fair trial."

Mr Eckert, who was visibly elated by the verdict, said that Mr Leeson could theoretically be on his way to the airport by the end of next month. But this is thought highly unlikely, given the likelihood of further legal action.

The matter will go for a final decision to the Justice Ministry in Bonn, a process that normally takes between four and six weeks. If Bonn concurs, the authorities in Frankfurt will then be able to go ahead with the extradition.

However, if a full appeal to the Constitutional Court is allowed, there could be a delay of up to a year. Mr Stephen Pollard, Mr Leeson's British lawyer, said there were clear grounds for appeal on at least eight of the charges.

Mr Pollard criticised the verdict, saying it appeared "in various respects to be inconsistent and wrong in law". He said that an appeal would be made to the constitutional court within the time limit of a month.

In its argument, the High Court stressed that Germany operates a legally binding extradition agreement with Singapore over crimes that are punishable by law in both countries, a standard restriction on extradition.

A key task for Mr Leeson's lawyers will be to build up public support inside Germany in order to exert political influence in Bonn. Unlike in the UK, the Leeson case has attracted only little publicity in Germany.

TV channel bidders must give costings

By Raymond Snoddy in London

Bidders for Britain's new Channel 5 television operating licence yesterday se have been given until tomorrow to confirm details of the hourly sum they intend to spend on programmes.

The late request from the regulatory body the Independent Television Commission has bumped the bidders: Virgin Television; Channel 5 Broadcasting, which groups NAI, Pearson (owner of the Financial Times), and CLT of Luxembourg; UKTV, the consortium put together by CanWest of Winnipeg; and New Century, the BSkyB-Gamada consortium.

It comes more than five months after comprehensive bid application documents were first submitted and at a time when the ITC members should be starting the final stages of making their decision. The letters point out that the average cost per hour of ITV programming is £43,000 (£87,940) and £28,000 for Channel 4. The bidders are then asked to confirm their costs per hour.

The figures range from around £11,000 an hour to more than £16,000. It is not clear whether the ITC is showing signs of concern at the relatively low figure for Channel 5 or whether the commission is gathering material to help rank bidders in preparation for making an award on "exceptional quality".

Bidders argue that the cost per hour depends on whether applicants are broadcasting throughout the night.

Labour party conference Hopes of renationalisation

Majority stake in rail network a policy option

By Robert Shrimley, Lobby Correspondent

Labour may take a majority interest in a privatised Railtrack as a cheaper alternative to trying to renationalise the entire company if the government-planned flotation goes ahead.

Close aides of Mr Tony Blair, the party leader, made clear that there was no real likelihood of an incoming Labour government being prepared to spend the estimated £2bn (£3.1bn) needed to take the Railtrack network back into public hands. Railtrack is to own the track in the state rail network, but not the trains.

Mr Blair himself yesterday stuck rigidly to the formula used in his speech on Tuesday when he said the railways

would be "publicly owned and publicly accountable". However, one senior aide made clear that this did not mean full renationalisation and that a number of alternative measures would be examined if the flotation succeeds. In particular he suggested taking a 51 per cent stake in Railtrack.

This would be a particularly attractive plan should a Labour government decide to float only 51 per cent of the shares, retaining 49 per cent, an option expected by a number of observers. If that were to happen Labour need buy back just 2 per cent of the total shares to take ownership of Railtrack. Party figures are reluctant to overplay this idea for fear that ministers will float the entire company to frustrate the buyback.

"What we are saying is that we don't know how things will be when we get in, but that we may not wish to devote all the money from our first public spending round to this one issue if there is a better way of achieving the same thing," said one party official.

Interviewed on BBC Radio, Mr Blair reiterated that there would be no "blank cheques" on how a Labour government might take control of the network and refused to use the word "renationalisation".

"We have to see what the government does. We don't yet know how it is going to privatise [the network]." Labour leaders are increasingly confident that the government will not meet its privatisation timetable and may fail totally to sell off the network.

Spin doctors panic over OJ

By Robert Shrimley and Raymond Snoddy

Details of Labour's attempts to manage the national news media emerged yesterday with the publication of a letter which tried to cajole the television companies into not heading their news bulletins with the OJ Simpson verdict.

The incident reflected the mounting concern of the party's spin doctors yesterday that the trial verdict, delivered at 12:00 British time, would overshadow the television coverage of Mr Tony Blair's setpiece speech to the party conference.

Mr Alastair Campbell, Mr

Blair's press secretary, faxed an urgent letter to Mr John Birt, the director-general of the BBC, and Mr Nigel Dacre, the editor of ITN.

His letter stated: "Some of your journalists have suggested to us that we are unlikely to get as much coverage for the leader's speech as in previous years because of the OJ Simpson trial verdict. It has even been suggested that there is little chance of Mr Blair's speech leading your bulletins."

It concluded: "Whilst of course news judgments must be made in the light of other stories on any particular day,

and whilst I understand there is much interest in the verdict, I would implore you not to lose sight of both the news value and of the importance to the country of Mr Blair's speech."

The BBC did lead both its evening bulletins with Mr Blair's speech. However, it stressed yesterday that Mr Birt had not passed the letter on to the programme editors.

ITN, which led both its bulletins with the Simpson verdict, attracted audiences of 10.8m and 7.6m, while the BBC attracted 6.8m and 4.5m for its two broadcasts, according to unofficial figures from ITN.

On Friday, October 6 some of the world's most astute economic commentators present their views to a select audience.

Also taking place is the annual IMF meeting in Washington.

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TECHNOLOGY

Worth Watching · Vanessa Houlder



New clue to streptococcus

The bacterium *streptococcus pneumoniae* causes illnesses such as pneumonia, sepsis and meningitis. But some 40 per cent of people harbour the bacteria in the nose and throat without suffering any symptoms.

Research carried out by scientists at the Laboratory of Molecular Infections Diseases at Rockefeller University and elsewhere suggests that the activity of the bacteria depends on the inflammatory activation of the target cells. This gives the bacteria access to a cell-surface receptor, normally used to bind the hormone platelet-activating factor (PAF).

The elucidation of this mechanism, reported in today's *Nature*, is likely to prompt researchers seeking potential therapies to consider drugs that work by blocking PAF receptors.

Rockefeller University, US, tel 212 3278276; fax 212 3278683.

Easier-to-use testosterone patch

Hormone replacement using skin patches is well-established for women but relatively new for men, writes *Daniel Green*. That may change after regulatory approval this week in the US for SmithKline Beecham's testosterone skin patch to treat under-activity of the testes.

Traditionally, treatment is by injection into a muscle, or by skin patch applied close to the testes. The SmithKline product, called *Aodroderm*, can be applied on the trunk, thigh or arm.

SmithKline Beecham, US, tel 215 7817074; fax 215 7817653.

'Piezo' valves could cut car emissions

"Piezohydraulic" injection valves that operate 10 times faster than

conventional valves could sharply cut emissions from car engines, according to developers.

Siemens is developing a valve made of a stack of layers of a piezoelectric material, which expands when a voltage is applied. The thrust is amplified by a hydraulic mechanism. These valves respond within 0.1 millisecond to voltage pulses coming from the central control unit, allowing precise control of the injection process.

Siemens, Germany, tel 49392340; fax 49392324.

Early warning on traffic jams

A device that warns drivers of traffic jams using information gathered from sensors on the motorway network was launched in the UK this week.

Trafficmaster, which is aimed at the mass market, uses speech technology to provide audible messages about traffic flow and delays within 10 miles of the vehicle's position. It is being launched by Trafficmaster, which collects information from a network of 2,400 infrared sensors. The information is sent to transmitter stations, where it is coded and transmitted by radio signal to a unit on the car dashboard.

The unit and a "key" giving access to 12 months of information cost about £50; later information keys cost £24.

Trafficmaster, UK, tel (0)1908 249300; fax (0)1908 200334.

Permeable mould protection

A lasting, environmentally friendly technique has been developed in Sweden to combat mould in the walls and ceilings of food production and processing industry plants.

Most surface treatment methods are made from impermeable paints which prevent surplus moisture escaping. Kefa International of Stockholm says its BioKil method uses a permeable protective layer which allows the moisture condensing in the underlying building material to pass through. Since it kills the micro-organisms by drying them out, it contains fewer environmentally harmful components than conventional treatments.

Kefa International, Sweden, tel 08002470; fax 086393171.

Louise Kehoe and Sheila Jones on the battle between Netscape and Microsoft over software for the Internet

A David and Goliath fight

For all of his success in outwitting the likes of IBM to become the leader of the world's biggest software company, Bill Gates, chairman of Microsoft, has long said that the competition he most feared would come from a software start-up with breakthrough, innovative technology.

Netscape Communications may be such a company. Founded by Jim Clark - who also formed Silicon Graphics, the leading 3D computer workstation manufacturer - and Marc Andreessen - a young programmer who helped to create the original software for the Internet's World Wide Web - Netscape burst on to the scene about 18 months ago.

The company has grown rapidly to become the recognised leader in Internet "browser" software with an estimated 10m users. In August, Netscape also became the idol of Wall Street with its spectacular debut on the Nasdaq stock exchange.

Yet as Netscape is quickly learning, playing David to Microsoft's Goliath is a perilous role. The young software company is now struggling to maintain its credibility, after an embarrassing breach of its "secure" software, and fighting it out with Microsoft in a bare-knuckle public relations brawl.

Netscape got its break partly because Microsoft was slow to recognise the rising popularity of the Internet. Now, with the launch of Windows 95 behind it, the software industry leader has awakened to the opportunities of the global computer network and appears to have turned its guns on Netscape.

Netscape would prefer to avoid a direct confrontation. "There is a tremendous effort to polarise us against Microsoft," says Clark. "We're not in the business of going after their desktop software business. We are, in fact, going after a new market."

That new market is potentially, however, one of the most lucrative prospects for the software industry. The prize in this looming battle is leadership in the emerging market for software that enables secure

electronic commerce and business communications via the Internet. With an estimated 50m computer users now hooked up to the global network, billions of dollars of international trade may be at stake.

Netscape and Microsoft have both in recent weeks launched competing and incompatible technologies designed to ensure the security of credit card payments made over the Internet, an essential tool if electronic commerce is to grow.

A war over technology standards, which could delay the progress of electronic commerce and potentially impede Netscape's growth, now seems inevitable.

Just three months ago, Visa International and MasterCard International, the two leading credit card payment processing groups, vowed to work together to create a standard method for secure bank card Internet transactions.

Last week, however, when Visa and MasterCard unveiled their own Internet security technology,

A war over standards, which could delay the progress of electronic commerce, and may impede Netscape's growth, now seems inevitable

MasterCard was noticeably absent. So too was Netscape, which has been working with MasterCard on software for secure payments.

Netscape and MasterCard complain that Microsoft and Visa have broken ranks by backing a "proprietary" approach to creating security software.

Although Microsoft says it will publish the specifications for its new Secure Transaction Technology (STT), Netscape charges that by withholding the source code (the original computer program) for STT, Microsoft is attempting to establish its control over technology that will be critical in the era of electronic commerce.

Netscape is making the source code for its competing Secure Courier software for credit card payments available to all comers at no charge. Software application developers will therefore be able to incorporate the technology in their programs.

"This is the way that standards are created on the Internet," says Mike Homer, Netscape marketing director. Microsoft, he claims, will charge third-party software developers licence fees if they want to incorporate STT in their programs. Moreover, Microsoft aims to extract a "transaction fee" every time the software is used to buy or sell goods and services on the Internet, according to Netscape.

"As a result of keeping it proprietary, Microsoft will be able to get a fraction of each transaction that occurs," says Clark. "If that's what the world wants, then they'll start paying Microsoft. It's a simple choice. Ours is an open specification, the STT is not."

"We think most people do not want to be locked into a proprietary software that charges a fee each time you make a transaction. There are more financial institutions in the world than Visa. Ask Barclaycard, for example, if they want to pay a fee to Microsoft for each transaction."

For its part, Microsoft says that it has not yet worked out the "business model" for STT, although it has no plans to freely distribute the source code.

MasterCard says that it, too, is disappointed that Microsoft and Visa have adopted a proprietary approach. "Establishing one standard for card purchases on the Internet is absolutely the right thing to do for consumers, merchants and financial institutions worldwide," according to H. Eugene Lockhart, chief executive of MasterCard.

Unless a compromise is found, there will be two incompatible credit card security systems on the Internet. This would force merchants and banks to choose sides, or support both at added expense.

In an attempt to avert a face-off, Netscape and MasterCard are seeking the support of other interested parties. This week, for example, they won endorsements from IBM, GTE, the communications group, and CyberCash, a pioneer of Internet cash payments.



Jim Clark at this week's launch of Netscape's latest generation of security software

Netscape's hand has been weakened, however, by recent incidents in which the security features of its browser software - less stringent than those used in its Secure Courier payments system - have been breached.

A flaw in Netscape's browser security was discovered by two "cyberpunks" - computer science students from the University of California at Berkeley - that might enable Internet eavesdroppers to read private messages.

Although there is no evidence to suggest that any users of Netscape software suffered losses, and the company has already fixed the security problem, the incident was a setback, Clark acknowledges.

"It was a very foolish oversight," he says. "I don't want to diminish it. It was our responsibility to do a better job and we now have measures in place to do that. It was the

result of a young company, growing very fast.

"But we did bring security to the Internet in a way no-one else did," says Clark, in defence of Netscape. "Every system we've shipped in Navigator has had embedded security. Prior to that no-one had."

Having learned its lesson, Netscape has put in place new audit systems to check security software more rigorously. In future, the company will ask the Internet cognoscenti - the very people who discovered the Navigator security flaws - to test its software before it is widely distributed.

Microsoft is making the most of Netscape's mistakes as it promotes its own approach to Internet security. It is safe to predict, however, that the cyberpunks will do their very best to crack any security product that the industry leader may offer.

As the marketing battle unfolds, Microsoft must also be wary of the close scrutiny of the US Justice Department, which is continuing its antitrust investigation of the company.

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هكذا من الشرح

Land and Freedom is a picture of the Spanish civil war directed by Ken Loach. It makes us realise how many war movies are cushioned by hindsight or protected by moralising. Often we have to choose between higher Hollywood silliness and a grand but portentous Euro-fatalism in the style of *La Grande Illusion*.

In Loach's film, written by longtime collaborator Jim Allen, we have a callow Liverpudlian volunteer for hero (Ian Hart) and a confused war-within-war for subject and setting. Stirred by a Spanish Republican's speech at a meeting in his home town, Hart goes to Spain to join a militia attached to the revolutionary socialist party POUM. Instead of a bold glow of anti-fascist unity he finds an ill-fated, ill-knit army advertising its disarray. Rifles blow up in soldiers' faces; a comrade dies in battle asking for a spare bullet; and when not fighting Franco, the militia's half-dozen different nationalities stand in village halls yelling their dissenting views and ideologies.

These scenes are the film's collective tour de force. They show why an army quitted from irreconcilable geopolitical tempers came apart at the seams. The American wants to woo potential capitalist allies by muting the communist credo; the Frenchman grandstands about bureaucracy; our English hero looks in earnest, goofy pragmatism. Finally, the movie's tragic punchline - the whole delicate alliance of small anti-Franco forces will be crushed by hard-line Stalinism, as the Soviet Union extends its covert sphere of influence to the Spanish left.

This could have been an Open University lecture masquerading as a movie. But *Land and Freedom* never trades in hindsight pontification. It is a crackling gunpowder trail of "News" leading to a final, explosive "Then": a denouement we sense coming, but never know when or how.

As in any prolonged human crisis, absurdity is mixed in with apocalypse. In one scene opposing Anarchists and Communists, exchanging rooftop gunfire and taunts, keep stumbling across a common foreign language. "I'm from Manchester," says a voice from the opposite parapet. "I'm from Liverpool," Hart shouts back. Meanwhile an old woman clutching groceries in the middle of the street yells, "You should be killing fascists, not one another!"

Even the romance between our hero and a Spanish *compañera* (Rosana Pastor) develops in a free zone outside sentimentality. The couple's quarrels are joined symbiotically to the larger quarrel between ideologies; and we believe in the polar attraction between Hart's jumpy, gawping, rabbit-eared innocent and the girl's weary wisdom, her stoicism bordering on anomie.

The film's framing device is the only disposable section. David's granddaughter discovers his diary after his death, cueing the main story as a giant flashback. Is there a message for our times here - that fascism is alive and well and living in modern Britain? Or did Loach and Allen not have the faith they should have had in a historical story so potent and



Ian Hart and Rosana Pastor in 'Land and Freedom', Ken Loach's crackling gunpowder trail of a film about the Spanish civil war

Cinema/Nigel Andrews

A war between ideologies

reverberant that it needed, literally, no introduction.

The first two consonants in the name "Pocahontas" serve grim warning. Disney's new animation feature is so PC that we wonder if it comes from the same national film industry that used to treat Indians - sorry, native Americans - as folk who talked funny, scalped you and were best left horizontal on the ground.

For John Wayne or John Ford, now read John Smith. Voiced by Mel Gibson, this blond-haired, strong-jawed, true-life colonist sails across the painted ocean, circa 1607, to imbibe the peace-and-love message from a head-wearing, pipe-smoking race so progressive that they already dress and behave like 1970s hippies.

In gorgeous landscapes - the camera flies bird-free over silvered rivers and soaring forests - our hero woos the chief's beautiful eponymous daughter. He also pets her friends, a raccoon and a hummingbird, and talks to the ancestral willow-tree goddess. And he tries to stop his chief, the wicked, gold-seeking Governor Radcliffe (Sess), cutting up the forests

LAND AND FREEDOM
Ken Loach
POCAHONTAS
Mike Gabriel and Eric Goldberg
ASSASSINS
Richard Donner
MY FAMILY
Gregory Nava

and raping the land. Will the Indians - sorry, the indigenous Virginians - attack the colonists after one of their tribe is slain in an accidental fracas? Or will John and Pocahontas broker harmony amid the beauteous songs and scenery?

The film has overlong love scenes, iffy animal acts, and in the shimmering comic twosome of Radcliffe and the cabin boy Wiggins a nasty dash of homophobia. But the landscapes make up for much. All those cataracts and sunsets; all those forests painted

like living, breathing Japanese water colours; all those river-viewing crags that characters go to stand on when ever the screenplay runs out of dialogue and is reduced to the mandate, "Look noble, mythic and timeless". Assassins continues the strange story of Sylvester Stallone. As one action flop succeeds another in the ex-Rambo's filmography - *The Specialist*, *Judge Dredd*, now this - his salary climbs ever higher and higher. He now stands on the topmost Hollywood crag in history, commanding \$20m per picture.

I blame the parents. A childhood injury gave Sly the semi-paralysed lip that causes that intriguingly impassive face and croaking bass lisp. And having a hairdressing father who christened you "Sylvester" must propel you into a life of near-demented compensatory machismo.

We have a sneaking fondness for this actor even when he hates his movies. *Assassins* is about two rival hit-men, one old, one young (Antonio Banderas), who chase each other all over L.A. and Puerto Rico. Directed by Richard Donner, it resembles a live-action Road Runner cartoon, with

commensurate implausibility. In the last sequence we are asked to believe that no one notices the pretty woman appearing to talk loudly to herself at a café table (heroine Julianne Moore speaking into a Sly-connected pin-mike); let alone the maniacal fellow (Banderas) brandishing a rifle in clear view on a third-floor balcony.

Better but not perfect is *My Family*: the tale of three generations of a Mexican immigrant family in L.A. Written and directed by Gregory Nava (of *El Norte*), it sprawls warmly across 60 years while never quite seeming to leave the rehearsal room. A dozen good actors emote like crazy - Edward James Olmos, Jimmy Smits, Elpidia Carrillo, Esai Morales - while Nava passes round the script full of knife fights, romances, jail sentences, family quarrels, hopes, dreams, philosophies. In the end the film is doomed by its earnestness: by a sense that the feelings are being sincerely telegraphed rather than sincerely felt. We wish Nava had confined himself to writing the script and left the direction of this Latino *Godfather* to the executive producer, one Francis Ford Coppola.

than that Hawkins makes dances I want to see, that he has an original mind, and that Rambert has done excellently well to give him this opportunity and these fine dancers. And at a time when so much dance has the visual appeal of a paper bag, *Dancing Attendance* is the more welcome by reason of its stylish air.

These two pieces are part of a programme which also includes Kylian's *Petite mort* and Naharin's *Axioma 7*, works I can no longer bear to watch. As a note in passing, the Rambert programme book for this tour is admirably produced, filled with magnificent Crickmay photographs and handsomely laid out. Quality tells.

Clement Crisp

Rambert Dance will visit Sheffield, Liverpool, Plymouth, Dartford, Cardiff, Bournemouth and Blackpool during the next two months.

Rambert Dance's original talent

accompaniment to the feelings of the central figure, the excellent Sara Matthews. Their dances are restrained yet eloquent, admirable in spacing and imagery. What strikes most clearly in this piece is Cohan's bold use of the Martha Graham style in which he was reared. We see dance worthy of the Earth Mother herself in its density of physical and emotional texture, in its communicative power.

The 20 years that separate Cohan's work from Matthew Hawkins' *Dancing Attendance* on the *Cultural Chasm* could be 20 decades, so different they are - albeit the chance for Hawkins' creativity is directly owed to the great years when Cohan and Robin Howard made "modern dance" vitally British. Hawkins is a cross-over artist, educated in ballet and plainly an advo-

cate of traditional Cecchetti classical, but also someone who has worked with Michael Clark and with Merce Cunningham, and has a taste for teases, obliquities, and with a certain delight in effrontery. Despite a mad title and costume programme note, Hawkins is a choreographer.

Dancing Attendance is visually splendid, physically alert, original. The cast are dressed as insects who have known Lacroix couture, with a trio of Moon-maidens in drapery and glittering crescent head-dresses. The score is extracted from Rameau's opera-ballet *Les Indes galantes*, one of the masterpieces of baroque theatre. (Like the *Vivadi*, it is admirably played by the London Music under Mark Stephenson.) Design is by Pearl, a chap who gives no other name; but

that does not matter because he is witty and clever. The insect costumes are brilliantly done in browns, black and white, and are sufficiently outré to help establish Hawkins' mood. Lighting by Charles Balfour is no less imaginative. We watch incidents that intrigue, vex, excite, by their curious muscular dramas. Androgynous figures dance and fall - Hawkins has a recurrent and irresistible taste for a moment when a body slumps to the stage as if it were All Too Much - and explore baroque ideas that the music has inspired. I think the piece is too long, but Hawkins' language - a wild yet coherent mix of classicism, Michael Clark, baroque gesture, Cunningham manners - is constantly fascinating. I would not pretend to understand what the piece says, other

than that Hawkins makes dances I want to see, that he has an original mind, and that Rambert has done excellently well to give him this opportunity and these fine dancers. And at a time when so much dance has the visual appeal of a paper bag, *Dancing Attendance* is the more welcome by reason of its stylish air.

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INTERNATIONAL ARTS GUIDE

BALTIMORE

CONCERTS
Symphony Hall Tel: (410) 783 8000
● Baltimore Symphony Orchestra: Richard Hayman conducts an orchestral salute to the world's greatest singers; 8.15pm; Oct 5, 8, 7, 8 (8pm)
● The Philadelphia Orchestra: Wolfgang Sawallisch conducts Wagner's "Faust, Overture", "Symphony No.2" and "Rienzi, Overture" and Beethoven's "Symphony No.4"; 7.30pm; Oct 11
GALLERIES
Baltimore Museum Tel: (410) 396 6310
● Celebrating Calder: sculpture, jewellery, drawings and tapestries by 20th century artist Alexander Calder; from Oct 4 to Jan 7

BERLIN

CONCERTS
Konzerthaus Tel: (020) 308 21 02/ 21 03
● Berlin Symphony Orchestra: with oboist Martin Gabriel, Yoel Levi conducts Greig, Mozart and Bartók

8pm; Oct 7, 8 (4pm)
OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Das Rheingold: by Wagner. Conducted by Jiri Kout and directed by Götz Friedrich. This is the first part of the complete "Ring Cycle" to be performed in October; 7.30pm; Oct 6
● Die Walküre: by Wagner. Conducted by Jiri Kout, and directed by Götz Friedrich; 8pm; Oct 8
● Madame Butterfly: by Puccini. Conductor Sebastian Lang-Lessing, production by Pier Luigi Samaritani; 7.30pm; Oct 13
● Siegfried: by Wagner. Conducted by Jiri Kout and directed by Götz Friedrich; 5.30pm; Oct 12

FRANKFURT

CONCERTS
Alte Oper Tel: (069) 134 0400
● Recital Evening: with soprano Barbara Hendricks and pianist Stefan Scholz. The programme includes Schubert, Wolf, Poulenc and Schönberg; 8pm; Oct 4

LONDON

CONCERTS
Royal Festival Hall Tel: (0171) 928 8800
● Philharmonia Orchestra: with pianist Andrés Schiff, Kurt Sanderling conducts Beethoven's piano concertos two, three and four; 7.30pm; Oct 7
GALLERIES
Royal Academy Tel: (0171) 439 7438
● From Manet to Gauguin: Impressionist and post-Impressionist paintings from Swiss private

collections; to Oct 8
OPERA/BALLET
Royal Opera House Tel: (0171) 304 4000
● Arianna: by Goehr. World premiere directed by Francesca Zambello and conducted by Ivor Bolton. A mixture of contemporary and Baroque music, reinterpreting the myth of Ariadne's abandonment by Theseus. Soloists include Susan Graham, Anna Maria Panzerella, Sheila Nadler and Axel Kohler; 8pm; Oct 4
● The Marriage of Figaro: by Mozart. Conducted by Bernard Haitink/David Syrus and directed by Patrick Young. Soloists include Felicity Lott/Cheryl Studer, Andrea Ross/Barbara Bonney and Robin Leggate/Ryland Davies; 7pm; Oct 7, 10, 13
● Tosca: by Puccini. Conducted by Simone Young and directed by Jeremy Sautcliffe. Soloists include Galina Gorchakova, Johan Bohta and Francis Egerton; 7.30pm; Oct 5, 9, 12

NEW YORK

CONCERTS
Avery Fisher Tel: (212) 875 5030
● Daniel Barenboim: pianist plays Beethoven's "Sonata in C", Brahms' "Sonata in F" and Schoenberg's "Three Pieces"; 3pm; Oct 8
Carnegie Hall Tel: (212) 247 7800
● Boston Symphony Orchestra: with pianist Evgeny Kissin. Self Ozawa conducts Tchaikovsky's "Piano Concerto No.1" and "Symphony No.6". This performance opens the Carnegie's 105th Season; 7pm; Oct 5
● José van Dam: bass baritone in his only New York recital is

accompanied by pianist Maciej Pikulski. The programme includes Schumann, Brahms and Wolf; 8pm; Oct 8
● Maurizio Pollini: pianist plays Beethoven's "Sonatas" one to four; 3pm; Oct 8
● New Orleans to Now: with the Carnegie Hall Jazz Band, this concert gives an overview of the history of jazz from early New Orleans through the swing years of bebop; 8pm; Oct 12
GALLERIES
Guggenheim Tel: (212) 423 3500
● Claes Oldenburg: an anthology of works by one of the key figures of Pop art in the 1960s. This exhibition includes a new piece entitled "Shuttlecock"; from Oct 6 to Jan 14

PARIS

CONCERTS
Champs Elysées Tel: (1) 49 52 50 50
● National Orchestra of France: with pianist Viktoria Postnikova. Guennadi Rojdestvenski conducts Prokofiev's "Concerto No.1", "Concerto No.4" and "Concerto No.5"; 8pm; Oct 5
● National Orchestra of France: with pianist Viktoria Postnikova. Guennadi Rojdestvenski conducts Prokofiev's "Concerto No.2" and "Concerto No.3"; 8pm; Oct 7
GALLERIES
Centre Georges Pompidou Tel: (1) 42 77 12 33
● Man Ray: recreation of the atmosphere of Ray's post world war two workshop where he produced various furniture. This exhibition consists of paintings, drawings and photographs from the workshop archives; from Oct 4 to Jan 29

● Surrealistic Designs: vision and technique. About 60 masterpieces by artists such as Ernst, Masson, Brauner, Dalí, Miró and Picasso; from Oct 4 to Nov 27
Musée d'Art Moderne, Ville de Paris Tel: (1) 47 23 61 27
● Louise Bourgeois: sculptures and drawings from 1938-1995. Significant art works that chart her different styles; to Oct 8
OPERA/BALLET
Châtelet Tel: (1) 40 28 28 40
● New York City Ballet: performs the Robbins choreographed "Watermill" with music by Ito and "The Goldberg Variations" with music by Bach; 8.30pm; Oct 4, 5
● New York City Ballet: in a programme that includes the Balanchine choreographed "Cocoré Barocco" and "Walpurgisnacht Ballet" plus Tannier's "Ancient Airs and Dances" and Martin's "Fearful Symmetries"; 8.30pm; Oct 8, 7
● New York City Ballet: performs the Robbins choreographed "Watermill" with music by Ito and "The Goldberg Variations" with music by Bach; 8.30pm; Oct 7 (3pm)
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Romeo and Juliet: music by Prokofiev, choreography by Rudolph Nureyev and directed by Emmanno Florio/Vello Pálm; 7.30pm; Oct 8, 7

WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4800
● National Symphony Orchestra: with pianist Horacio Gutiérrez. Raymond Leppard conducts Brahms' "Tragic Overture" and "Piano Concerto No.1" and

Schubert's "Symphony No.4"; 7.30pm; Oct 12, 13
GALLERIES
National Gallery Tel: (202) 737 4215
● A Great Heritage: Renaissance and Baroque drawings from Chatsworth consisting of 105 works by artists such as Rembrandt, van Dyck and Raphael; from Oct 8 to Dec 31
THEATRE
Arena Stage Tel: (202) 488 3300
● Holiday Heart: by Cheryl L. West. A play about hope and redefining the family; to Nov 19
Kennedy Center Tel: (202) 467 4600
● Hello Dolly: by Jerry Herman. New production starring Carol Channing; to Oct 8
Studio Theatre Tel: (202) 332 3300
● Slaves: Thinking About the Long Standing Problems of Virtue and Happiness. By Tony Kushner and directed by Dan DeRae. A surrealistic montage of post-Soviet culture; 8pm; to Oct 8
Woolly Mammoth Tel: (202) 488 3300
● Watanabashi: by Doug Wright, directed by Lee Mikeska-Gardner. Surreal drama of life and longing in an overpowering society; 8pm; to Oct 8

ZURICH

GALLERIES
Kunsthaus Zürich
● Bruce Nauman: a comprehensive collection of works by the American artist known for his multimedia audiovisual installations and sculptures; to Oct 8

Theatre/Ian Shuttleworth

Pinter - prince of comedy

One of the most remarkable things about seeing Harold Pinter act in his own plays is that they generally brood much less when he is around. The eloquent pauses and significant oblique references are all in place, but Pinter understands the extent of the comedy in his work.

Not that humour is that difficult to spot in *The Birthday Party*, which he wrote in 1958 but "set aside" until 1980, and now transfers from Chichester's Minerva Studio in David Jones's fine production. The shadows are all cast by the scheme of the play rather than its execution. The setting of an undefined "rest home" in which the inmates, known only by numbers, are routinely abused and electronically tortured by the staff whilst the man in charge blusters inanely and his subordinates jostle one another for the succession, offers pre-echoes of *One For The Road* and *Mountain Language*. Yet the actual script is less suggestive of Orwell or Kafka than of Orton.

As Roote, the ineffectual, pompous "chief", Pinter sports both a moustache and a manner reminiscent of *Dad's Army's* Captain Mainwaring. He makes an excellent self-important, retired colonel, unable to string a sentence together at the best of times and gradually subsiding into a whisky haze while his accent becomes broader and more plebeian.

Roote's assistants, Giggs and Lush, are played with equal finesse by John Shrapnel and Tony Haygarth. Shrapnel is a master of arid assiduity, his face a careful blank but seemingly emitting a whirl of the

turning cogs of a Machiavellian schema. Haygarth's Lush is sly, insinuating, greased with self-satisfaction as he riles his superior, accusing him of impregnating patient 6459 and murdering 6457.

Lush is the agent of two moments of unimaginably broad un-Pinterian comedy. Having twice had whisky flung in his face for these allegations, the third time he grabs Roote's tumbler and twirls it above his head in a gлумpling balletic parody - later extracting his revenge by presenting Roote with an exploding cigar. The mind boggles that Pinter ever wrote such slapstick, let alone between *The Birthday Party* and *The Caretaker*.

As Miss Cutts, mistress of both Roote and Gibbs, Celia Lumsden wears a permanent cool smirk, obviously playing her own game throughout. Christian Anhalt is all naive idealism as Lamb, who is ultimately sacrificed amid the electrodes of "number one interviewing room". Even here the gags persist, as the disembodied voices of Gibbs and Cutts hector him, "Have you always been virgo intacta?" and "What is the law of the Wolf Cuh Pack?"

The play itself lacks a little polish, introducing an entirely new character for the final five-minute scene smells of dramatic desperation. In the end, though, its successes are much more surprising than its flaws. On this occasion, Pinter's famous "weasel under the cocktail cabinet" is wearing a red nose and clown's baggy trousers.

At the Comedy Theatre, London W1 (0171-369 1731).

Concert/David Murray

Berio at 70

Luciano Berio is about to celebrate his 70th birthday. Thus on Sunday the London Symphony Orchestra invited him to conduct three of his own pieces, and one by his still-lamented colleague Bruno Maderna (1920-1973).

Birthday have become the excuses for mounting works by the High Modernist composers of the 1950s and '60s - which often need costly rehearsal time but do not guarantee full houses. Serious musicians are the ones who insist upon the celebrations, in the hope that the strength of the music will at last strike home to wider audiences.

When Modernist music first became an exciting ideal Boulez, Stockhausen and Luigi Nono (1924-1990) were the reigning triumvirate, with Berio and Maderna among the promising tag-alongs. It took longer for those two to make their marks; and when they did, it was less through pushing serialism still further than by their seductive, ambiguous sound-worlds.

Berio revived a late, charming exercise by Maderna on Sunday, the *Serenata per un Satellite* (1969: the year explains the title). While soft trills and tremolos sustain the sense of flight in space, solo instruments dispersed around the platform emit their own little lyrical bursts, fragmented

and overlapping. The structure and even the length of the *Serenata* are left to the conductor to determine. There could be no safer hands than Berio's for that; what might have been a mish-mash became a shimmering idyll.

Trills and tremolos also propel Berio's own Piano Concerto II, "Echobring Curves" (1988). Like many of his recent works, it is a recomposition and expansion of an earlier one, in this case his 1974 *Poems on the Curve to Find*. That was a brilliant *moto perpetuo* study, almost a one-piece piece; Berio allows, tongue-in-cheek, that in many respects it "could have been written with a computer".

The newer work is lush, often gorgeous. The hammering piano remains at the centre (played here by Andrea Lucchesini with formidable confidence and conviction), while two flanking semi-orchestras pick up its suggestions, colouring and expanding them. There is a wealth of rich, devious harmony, and that typical Berio effect of different sound-planes arranged in space. This sounds like a work which will not go away.

The two works that began the concert are more "occasional", a jokey cartoon after Boccherini and Berio's discreet, languid "restoration" of Schubert's unfinished 10th Symphony. I wanted more of Berio Berio.

WORLD SERVICE

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Financial Times Business Tonight

Crazy times in the credit culture



BOOK REVIEW
In the summer of 1987 Adam Faith, the pop singer turned actor, bought me lunch in Knightsbridge. When I asked him what his business then consisted of, he replied "corporate finance". I gathered he was marketing share and property deals to wealthy clients. A Faith unit trust was also on the drawing board. Alas, it all crashed in October, along with the global stock market. But there was an alternative: he became an associate of Roger Levitt, the life insurance sales wizard, though there is no suggestion that Faith knew the truth about Levitt's business practices.

Jonathan Mantle's book vividly, if anecdotally, brings back the flavour of these crazy times. Even after shares tumbled, property prices continued to soar, for a while. There was an economic miracle - chancellor Nigel Lawson himself had said so. Simply everyone could get rich quick.

When you unleash sharp salesmen on an ignorant and almost equally greedy public, you are simply asking for trouble. Maybe when only, say, vacuum cleaners are involved there are no terrible consequences. But when you allow the hucksters to sell apparent financial security and prudent investment, all wrapped up in tax relief, with implied government support and regulatory approval, there will be much more at stake and scandals are bound to multiply.

There have been financial scams galore down the ages, but Mantle focuses upon the problems that emerged in the late 1980s - hence the book's subtitle, *Tales from the Last Days of the Credit Culture*. The themes include the disaster of the home income plans, when thousands of elderly people mortgaged their homes to invest in bonds that failed to provide the expected income; the saga of Roger Levitt, who was convicted of fraudulent trading after his group collapsed with more than £34m (\$53.7m) in debts; the Maxwell pension scandal, when nearly £440m of pension assets disappeared; and the ultimate in upper-crust rip-offs, the losses

FOOL'S GOLD
By Jonathan Mantle
Scribner, £17.99, 154 pages

at Lloyd's that entrapped and ruined swathes of the Home Counties middle classes who had provided capital for the London insurance market by becoming Names.

Mantle mostly leaves the reader to make sense of it all. This is an impressionistic book, focusing on a few particular cases, like the elderly couple who took out a home income plan in 1989 but, far from gaining income, are now stuck with paying out £100 a month on a mortgage for life.

The analysis, such as it is, comes through interviews with two figures with axes to grind: Professor Jim Gower and Joel Joffe. Gower produced the original report on investor protection for the Department of Trade and Industry in 1994, which paved the way for the Financial Services Act 1986. Joffe had prospered at his old friend Sir Mark Weinberg's insurance company, Allied Dunbar, but later experienced a conversion which has caused him, from his manor house in the West Country, to denounce the hard-selling practices of the life industry.

Mantle previously wrote a book about the Lloyd's disasters, so it is not surprising that the tottering insurance market provides the best chapter. Here the salesmen were not only aggressive and unscrupulous but, fatally, they had English class snobbery on their side, inviting participation in for "membership" of a glamorous part of the financial establishment. Disclosure, judgment and analysis went out of the window.

In life assurance the author is less well-versed: for instance, the five-year endowment policies which he mentions at one stage do not exist. He willingly accepts the views fed to him by Gower and Joffe. The big failure, he concludes, was that the government (under pressure from the Office of Fair Trading) refused to accept the life insurance industry's recom-

mendation of a fixed maximum commission scale as its solution to the problem of aggressive selling.

But the OFT would argue that the greater mistake was to fail to insist on adequate disclosure of commissions and costs, a change that was fiercely resisted by the life industry right through the 1980s and early 1990s, and was only finally introduced in January this year.

In the end, however, a satisfactory market can develop only when the salesmen are professionalised and the public is educated. Even today this is a remote prospect, and in the late 1980s the tone was set by the likes of Levitt, decked out with alligator shoes, loud bow tie and Davidoff cigar. His opening line at sales meetings was "I've sold £5m of insurance - what have you done?" Yet he talked respectable insurance giants such as General Accident and Commercial Union into investing in his shady empire.

As Mantle points out, the changing climate destroyed one of the lower-tier pillars of the financial community, the bank manager. According to a retired Barclays manager, the personal touch was replaced by objectives laid down by head office, soon to become formal "targets", with performance league tables and incentives. Thus 55-year-old bank managers were replaced by 35-year-old product salesmen.

The book is effective in highlighting the confusion of the innocent and ignorant: the middle-aged woman who insists she should be compensated for losses when she and her husband banded over money to a crook, the couple who were persuaded that Lloyd's membership would pay school fees for nothing. But the proper analysis of the retail investment industry's agonising growing pains has yet to be written.

As for Adam Faith, he has had a career change. "I've decided at last on the person I am. I am an artist," he is quoted as saying. No unit trusts? No insurance bonds? Perhaps it will now be safe for me to return that lunch.

Barry Riley

Mr George Seicas, the chief engineer at Vitis-Hincest winery in central Moldova, brings out four unmarked bottles. He pours the local chardonnay into ordinary water glasses: the wine is fruity and smooth, although not properly chilled. "And very dry," he adds. "1993 was a good year."

Set among rolling hills covered with vineyards and sunflower fields, Vitis-Hincest will send 600,000 bottles to the US and UK this year and expects to triple exports to the west before the end of the century. The winery has forged an alliance with western winemakers to improve its production methods and marketing. Moldovans are proud of their wines and believe that with the right skills, they can expand the market for them in the west.

"Moldovans know everything about wine," says Mr Ian Marud, general director of IMCO, a company that bottles and exports wines and makes chic labels for local wines. "We're a very humble people who don't like to boast, but I don't think our wines are any worse than French or Italian brands."

Moldova, a largely Romanian-speaking country, seceded from the Soviet Union in 1991. The wine industry accounts for about half its gross domestic product - but production has fallen from 500m litres in the mid-1980s to 200m last year.

Last year Moldova's gross domestic product contracted by 22 per cent. The International Monetary Fund expects it to grow only 1.5 per cent in 1995. Restoring the fortunes of the wine industry is seen as vital to the country's independence and economic recovery.

The disintegration of the Soviet Union is the main cause of the decline. Moldova used to supply one in three bottles of wine drunk in the USSR, but sales began to contract under the temperance drive introduced by Mr Mikhail Gorbachev, the former Soviet president. The collapse of the Russian economy after the break-up of the Soviet Union further reduced exports to the region.

The death of communism also meant changes in marketing and distribution. Moldovan wine had been bottled at plants in Ukraine and then distributed to the Soviet republics through the central planning system. These arrangements ended in 1992, when Ukrainian bottle suppliers suddenly wanted hard currency for their poor-quality products.

The former Soviet republic is looking to the west to boost the industry, says Matthew Kaminski

Hopes flow for Moldovan wine



Liquid assets: the Vitis-Hincest winery expects to triple exports to the west by the end of the century

Some progress has been made in finding new markets. Exports to the European Union have risen from 1.5m bottles in 1993 to 5m last year - inexpensive Moldovan whites are readily available in UK supermarkets.

However, the small former Soviet republic still sells most of its wine in eastern Europe. The industry wants to increase sales to the west from 6m bottles this year to 20m by 1998. Moldova will not find it easy to turn its export potential into reality. Like so many industries in the former Soviet Union, winemakers rely on inefficient production methods and have only rudimentary marketing skills.

Vitis-Hincest has embarked on an unusual business relationship to help it modernise. Three years ago the Moldovan winery struck a barter deal with Hugh Ryman, the company of self-styled "flying winemakers" based in Bor-

deaux, France, and with Penfolds, the Australian winemaker, to produce wines in exchange for a \$500,000 bottling plant. This has also brought the Moldovan winemakers know-how on production, packaging and marketing.

"We spent a lot of time cleaning things, and people didn't understand why," says Mr Con Simos, the 39-year-old Australian who runs Hugh Ryman's operations in Moldova and Hungary. "You'd be surprised how hygiene makes a difference."

The French company initially bought 15 per cent of the output, but soon found that western consumers were not flocking to buy the downmarket wine with its \$1.50 price tag. Mr Simos blames "poor consumer perception of Moldova".

Confident about quality, the company simply changed the name: Robu de Hincest, the chardonnay, now sells as Kirk-

wood in the UK and Hickory Ridge in the US. Sales are up 40 per cent this year. French labels, Bulgarian bottles and Portuguese cork have replaced the old Soviet packaging materials.

"When you start from nothing, you have to build up something before many more agents will buy it," says Mr Simos, who adds that the company first had to open an office, set up telephones for work and then find a way to get the wine out. It is now shipped through the port of Odessa in Ukraine.

The European Bank for Reconstruction and Development's first loan to Moldova - approved last year - was \$30m to boost wine output over the next three years. Backed by part of the loan, Eleusis, a Spanish construction company, last month began to equip and build a modern bottle plant outside Chisinau, the capital, that will produce 50m wine bottles and 40m cham-

pagne bottles a year by 1997. "In the last two years we've tried to invest in upgrading our technology and getting on the world market a ready product," says Mr Sergiu Sarghi, external economic relations director at Dacia-Fenix, the commercial association of viticulturalists and vineyarders.

As wine officials eagerly seek outside investment, state wineries are finally changing owners after privatisation began in earnest last year. Vitis-Hincest spent four decades in state hands before a recent takeover by the workers. By law, however, land cannot be freely bought or sold until 2001, and foreigners are more interested in the fields than the ageing machinery.

"To us, a factory would be useless. We'd just tear it down and start all over again," Mr Simos says. "We're only interested in the vineyards."

As the country makes its export push westwards, it faces obstacles from the European Union. Moldovan wine is more highly taxed on entry to the EU than the two leading east European producers, Bulgaria and Hungary, which have association agreements with the EU.

Mr Anton Spee, an EBRD marketing consultant, says the higher EU import duties imposed on former Soviet republics raise prices of Moldovan wines. But he adds that for the time being Moldova's low production costs have helped keep the retail price down.

This year Moldova wants to raise exports to the US and Australia and to try to restore sales to the former Soviet Union. Many consumers there turned to western brands when Russia's borders opened after 1991. Although an increasing proportion of Moldovan wine production goes to western markets, Mr Sarghi stresses that Moldova must recapture the Russian market. Hungary started exporting to the west long before Moldova, and found a niche market for modestly priced wines of acceptable quality. They thus paved the way for other east European producers such as Romania. Moldova hopes that if it improves quality and packaging, it could follow suit.

"The perception of east European wines is getting better," Mr Spee says. "Moldovan wineries are making the hard decisions, buying new equipment, privatising. The future looks good."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "line"). Translation may be available for letters written in the main international languages.

Forecasting's fundamental flaw

From Mr William P. Kuczewicz.
Sir, Professor John Kay's survey of UK economic forecasters ("Cracks in the crystal ball", September 29) reveals a telling consistency of inaccuracy. He points to the uniform failure to foresee the "dramatic and continuing decline in inflation since 1991". Although lower price levels may have surprised those who hold that inflation is a consequence of "excessive demand", the slowdown in price increases was quite predictable.

If inflation instead is viewed

as the debasement of the unit of account, then gold becomes the best measure of monetary value in a world of floating exchange rates. Historic data shows that changes in the sterling price of gold presaged the inflation rate decline by 10 months. Gold fell from £255 per ounce in December 1989 to £195 by July 1990. British producer and consumer price rises subsequently peaked. In October 1990 and then fell for the next 12 months. Sterling gold price fluctuations and UK rates of inflation have

moved in tandem ever since.

Prof Kay correctly cites the inability of most forecasting to identify structural changes in the economy as a "fundamental weakness". Much more is at issue, however. That conventional economic forecasting (and not just in Britain) is so consistently inaccurate can only suggest the prevailing Keynesian model itself is fundamentally flawed.

William P. Kuczewicz,
Polyconomics Inc,
86 Maple Avenue,
Morristown, NJ 07960, US

Metrication pipe dream in Germany

From Mr Jonathan Miles.
Sir, Your article on metrication ("FT's 10½ inch-wide guide to metrication", October 2) recalls the latest twist in the UK's long and agonising metrication debate.

British readers may be interested to know that their authorities have scored an own goal, for in Germany, as have in Luxembourg, pipes, taps and the like are calibrated in inches. Britain, however, has been metricating these fittings for some years in some misplaced gesture of "European" harmonisation.

Moral: the German industrial lobby knows better how to protect itself from the crippling costs of change which bureaucrats and Eurocrats would inflict on them than do the glib British.

Jonathan Miles,
315 route de Longuey,
L-1941 Luxembourg

From Mr Robert G. Rae.
Sir, Rapid application of a measuring device shows the text of your "10½ inch-wide guide to metrication" (October 2) to be a mere 10in wide, prompting the question - are we all being short-changed, like the baked bean aficionados, or has the remaining ½ of an inch ended up in the "gutter" along with much of the rest of the antiquated British measurement system?

The same measuring device shows an FT page to be 38cm wide and 60cm deep, while the text width is 5cm wide. So it seems the FT, at least, made the wise decision to "go metric" some time ago?

Robert G. Rae,
98 Runby Road,
Greystones,
Sheffield,
South Yorkshire S11 7AL, UK

Not a good argument

From Mr Philip Cullum.
Sir, National Power and PowerGen apparently justify their bids for regional electricity companies as a kind of "rationalisation" in preparation for the competitive market in 1998 ("Escaping the power sector's generation gap", October 2).

"Neither of the generators has the expertise in billing, marketing and customer service to attack the domestic supply market," reports David Wighton. So, rather than build such operations themselves, "they have opted to buy them".

However, from the consumer's perspective, this is all rather unconvincing. For instance, the electricity companies surely have little more marketing experience than the two generators when it comes to wooing domestic customers. If only because the companies face the undemanding challenge of selling an essential product to a captive market.

As for customer service, when we surveyed utility customers for *Which?*, the fairly dismal achievement of the regional electricity companies was to outshine only the water companies.

It is disappointing how little National Power and PowerGen have said about improving service for customers, if the bids succeed. Some details of what the generators intend to do to give customers a better deal would be welcome.

Philip Cullum,
policy manager,
Consumers' Association,
2 Morylebone Road,
London NW1 4DF, UK

Market pricing problems

From Mr Adrian FitzGerald.

Sir, There is an urgent need for a review of the combined effect of the 1993 Criminal Justice Act, Part V (insider dealing law) and the Stock Exchange's reinforced guidance on the dissemination of price-sensitive information.

Last year my prediction that the new rules would result in a less efficient equity market and that a significant increase in profits warnings would lead to greater share price volatility was reported in the article "Analysts wary of tighter net" (March 23 1994). This has proved to be the case.

It is partly nonsense which prompts me to write, in fact, having recently disposed of personal shareholdings in Alfred McAlpine and First Choice Holidays. The shares of both companies were badly mauled after each had given a profits warning.

Moreover, and as many investors will know to their cost, these are just two of many similar cases over the past 18 months.

Any observer of the UK market must conclude that, while it may be a fairer market in the sense that professional analysts and managers no longer

benefit to the same extent from corporate nodes and winks, it now has serious inefficiencies. It is clearly the case that in this environment many shares can be badly mis-priced for lengthy periods. Indeed, I would certainly feel disgruntled if I had recently been a buyer and not a seller of McAlpine and First Choice.

The net result is heightened short-termism. What incentive is there for investors to assess and invest on the basis of long-term prospects when they are only too aware that a significant proportion of asset value can be wiped out within days?

As an aside, it is interesting to note how few companies relay warnings that market expectations are too low.

I do not have a ready solution to offer. Moreover, I would not wish to dig up the fairer playing field now established. However, present market inefficiencies can only serve to frighten off both existing and potential participants. A satisfactory solution will have to be found.

Adrian FitzGerald,
Pomathorn Farmhouse,
Penicuik,
Midlothian EH26 8PJ, UK

Jardine still has place in a 'leading' index

From Mr Richard Pain.
Sir, On dear, that this should have to be pointed out to Lex (September 27).

The Jardine Matheson group of companies is still included in the "leading" Financial Times/Standard & Poor's - Actuaries World Indices and in

the FT/S&P AWI Hong Kong country index.

This group is difficult to place following changes in corporate structure that it has initiated, but the World Index Policy Committee felt it was important to keep it as a constituent of the Pacific Basin

Regional Index and, within that, to maintain it in Hong Kong.

Richard Pain,
chairman, FT/S&P Actuaries World Indices Policy Committee,
Staple Inn Hall,
High Holborn, London WC1, UK



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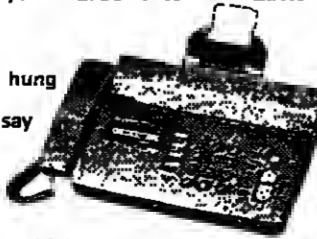
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مكتبة الشرح

Apec agrees customs checks deal

Accord sets target for uniform standards by end of the decade

By William Dawkins in Tokyo

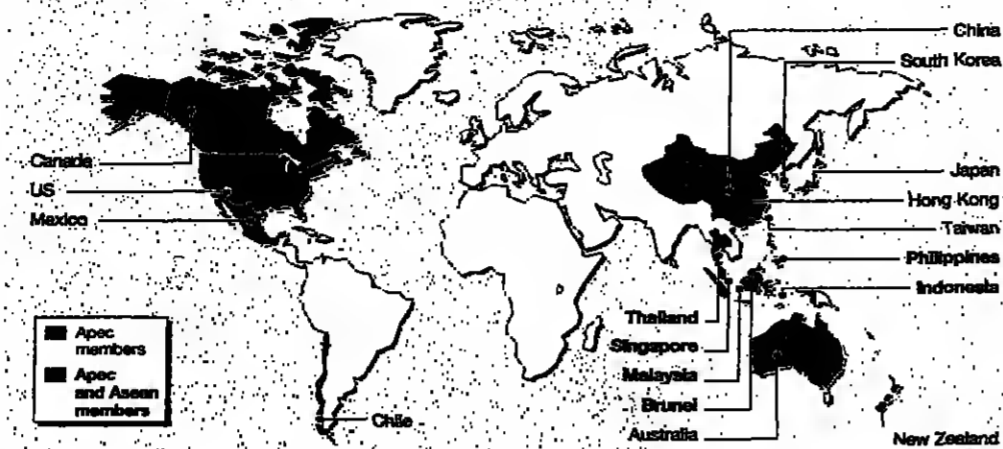
Members of the Asia-Pacific Economic Co-operation forum, embracing 40 per cent of world trade, have agreed in principle to adopt common customs checks by the end of the decade.

The accord, reached at a meeting of customs officials chaired by the Japanese finance ministry, is the most concrete step by Apec towards realising its target of ending industrialised countries' trade barriers by 2010 and opening up developing countries' markets by 2020, said officials.

In other areas, progress was yesterday being held up by a US-Asia deadlock over agriculture. Japan, South Korea and China want to shelter farmers from free trade, while the US and Australia, Apec's biggest food exporters, insist on no exceptions.

The customs deal is to be presented to a meeting of senior Apec officials in Tokyo next week, for adoption by the forum's annual summit in Osaka next month. The accord contains nine steps to ensure that goods pass through the same customs procedures.

These include common rules for valuing goods to assess import tariffs; wider enforcement



of copyrights; the adoption of a single Apec customs declaration form; and the computerisation of clearance procedures in line with United Nations rules. They agreed to prepare a precise schedule by the end of the year.

A Japanese official yesterday said that the Apec sub-committee on customs procedures had made more progress than any other working groups attempting to flesh out the free trade plan.

The Apec farm trade dispute, by contrast, worsened yesterday, when Mr Tomitichi Murayama, the Japanese prime minister, vowed to seek to exclude agriculture from the free trade plan.

Mr Murayama said Japan planned to keep to its undertaking in last year's Uruguay Round world trade deal to open its rice market, allowing imports representing just 4 per cent of total demand, from last January.

Mr Ryutaro Hashimoto, the minister for international trade and industry, warned that Apec could collapse if farmers were not given an exemption. However, Australia fears that Apec's free trade plan could unravel if farmers are protected. Mr Paul Keating, the Australian prime minister, has argued that granting exemption to farmers would invite other sectors to demand protection.

Daiwa Bank

Continued from Page 1

the bank's problems had been completed.

He rejected suggestions that the bank had deliberately not told the US authorities about the losses discovered at the New York branch.

The bank received notification of the losses in July but waited until September 18 before informing regulators in Japan and the US. Daiwa says the delay was the result of the detailed internal investigation it was forced to conduct.

Mr Fujita also denied reports that Mr Toshihide Iguchi, the trader allegedly responsible for the losses, may not have acted alone. Japanese newspapers had earlier cited US investigators' reports that Mr Iguchi had covered up the losses with the aid of an accomplice.

But Daiwa did arouse new suspicions about its conduct when bank officials confirmed yesterday that it had raised more short-term funding than usual in the money markets in the days immediately before revelation of the losses.

Daiwa Bank's shares fell by another ¥20 on the Tokyo stock exchange yesterday to close at ¥760.

Brussels acts against Italy on mobile phone competition

By Emma Tucker in Brussels and Andrew Hill in Milan

The European Commission began legal proceedings against Italy yesterday for failing to allow fair competition in domestic mobile telephone services.

Mr Karel Van Miert, the competition commissioner, who has described Italy's approach to the mobile telephone sector as a "scandal", believes Omnitel, the only private mobile company granted a licence, has suffered severe discrimination.

He won the support of other commissioners to begin legal proceedings, which set a deadline of three months for action by the Italian government, after repeated letters and requests to Rome failed to produce results.

The Italian authorities have refused to allow Omnitel, an international consortium in which Olivetti is the biggest shareholder, to operate a cellular phone network under the same conditions as Telecom Italia, the state-owned monopoly. In particular, Telecom Italia has not been

asked to pay the same fee that Omnitel had to pay in order to win the licence. Yesterday, Commission officials said the Italian authorities had the three months in which either to demand a similar payment from Telecom Italia or to grant Omnitel concessions - such as better access to networks - that could be judged to be adequate compensation for the second operator.

The Italian telecoms ministry declined to comment yesterday on the grounds that Mr Agostino Gambino, the minister, had not yet received official notification of Mr Van Miert's decision. Telecom Italia Mobile (TIM),

the state-controlled mobile phone company, and Omnitel, which won the licence for the second digital mobile phone network in March last year, also declined to comment.

Omnitel has claimed that it did not ask Mr Van Miert to intervene on the question of the entry fee. On most other regulatory aspects, however, it has fought hard, both in Rome and Brussels, to reduce TIM's head start in the mobile sector.

Recently there has been an uneasy truce between the two rival companies, although last month's launch of Omnitel's "experimental" service has triggered a new marketing battle. Omnitel plans to begin a full commercial service by the end of the year.

The Commission said it recognised that progress had been made by the Italian authorities since it first threatened legal action in December last year. It noted that draft legislation aimed at reforming the regulatory regime of the Italian telecoms market was recently submitted to the Italian parliament.

THE LEX COLUMN

Shrinking Trust

Few traders would want transcripts of their phone calls published. A penchant for foul language is almost a requirement for the job. But the Bankers' Trust tapes, published as part of Procter & Gamble's racketeering suit against the bank, reveal more than high jinks. They show glimmers of being able to outwit customers.

This bad publicity generated by claims that Bankers Trust sold corporate clients inappropriate derivatives has already taken its toll on its business. Customers have become more wary about buying heavily-leveraged products whose risks they do not fully understand. Given that the damage is already done, the latest embarrassing disclosures may not make things much worse. However, they do strengthen the case for a overhaul of Bankers Trust's culture. While specific problems may be confined to a few individuals, it is hard to believe that the lack of concern for customers' interests is unconnected to the bank's aggressive transaction-driven culture.

With Bankers Trust's top management in flux and its shares trading at a discount to those of its peers, the group is talked about as a possible takeover target. After all, several big European commercial banks are anxious to build up their investment banking presence in the US. But it would be a brave bank that believed it could knock into shape an organisation with such a gung-ho culture. Moreover, Bankers Trust is relatively weak in equities - the business which European banks are most keen to develop. It will probably have to find its own solution to its problems.

Gemina

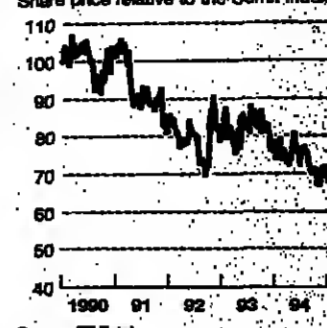
Gemina's audacious proposals for building up a vast Italian industrial empire always looked like a case of ambition getting the better of ability. Gemina's management had a poor record with existing subsidiaries. Yet it planned to take over Ferruzzi Finanziaria and various Fiat subsidiaries in a deal which would give it control of a complex spread of unrelated businesses.

Such concerns have been exceeded by last week's revelation of huge losses at RCS, its publishing subsidiary - Gemina only recently said RCS was on a recovery track. The subsequent 18 per cent drop in its share price is both costly and embarrassing for the puppeteers behind Gemina, Mediobanca and Fiat. They are talking about management reshuffles at

FT-SE Eurotrack 200:
1528.0 (+1.1)

Gemina

Share price relative to the Corbit Index



Gemina. But the dynamics of the transaction have switched in favour of shareholders in Gemina's takeover targets, such as Ferruzzi. More Gemina shares will now need to be issued, further diluting Mediobanca/Fiat control of Super-Gemina.

This is good news for some parties in the transaction, but offers no solace to shareholders in Super-Gemina's largest component, Montedison. Super-Gemina will become a vast diversified holding company, but its largest asset will be a 30 per cent stake in another giant conglomerate, Montedison. Further overlaps, such as head offices, given restructuring seems inevitable. Control of Montedison has changed hands twice in three years without minority shareholders receiving any premium. They could end up on the wrong side of yet another reshuffle.

BT/Labour

Mr Tony Blair's Labour party and BT are clearly having a problem communicating. Labour thinks it has a deal that BT will provide free connections to the information superhighway for schools and hospitals in exchange for looser regulation. BT calls it more of a concept. But the crossed lines are not the real problem. More seriously, the episode underlines a weakness in Labour's whole idea of partnership between public and private sectors. This is now revealed to amount to trading the public interest in exchange for favours from a private company.

It is doubtful whether trading the public interest is wise in principle. But, if Labour is going down this route, it should at least press for the best deal. The cost to BT of cabling up

schools and hospitals will be tiny by comparison with the total £10bn-plus investment that will be needed to create a nationwide infrastructure. It is not even as if the schools will then get free use of the network.

If Mr Blair was thinking really commercially, he would have approached BT's rivals and held an auction. The cable television companies might have been willing to throw free usage into the bargain if Labour promised to keep BT out of their market for a few more years. AT&T, which is on the point of entering the UK phone market, might have offered even more goodies if Mr Blair promised to tie BT in regulatory knots. Sadly, new Labour has revealed itself to be a touch naive when it comes to commercial negotiations.

Life assurance

After two years of conflict between the UK life assurance industry and its regulator, there is the real chance of ceasefire. Instead of a peace dividend, Mr Andrew Large, chairman of the Securities and Investments Board, is offering a "disclosure dividend". He argues that greater openness and higher standards on the part of the life companies should lead to their being more lightly regulated. The industry still has much to prove following the scandals over endowment mortgages and pensions mis-selling. But if it can win back credibility by having better-trained salespeople delivering products that are easier to understand, it should be rewarded with greater flexibility and lower compliance costs. For investors, the strong fundamentals of the life companies, with robust balance sheets, capacity to increase dividends and growing underlying demand, should then reassert themselves. The sector's outperformance since last month's results from Prudential Corporation is a sign that this is already happening.

As long as full disclosure and training remain the cornerstones of regulation, many of the detailed procedures should be easy enough to cut out. There could even be a system under which the better companies suffer fewer inspections and need to comply with fewer rules. If he really wants to make a difference, however, Mr Large should also look at streamlining the number of regulatory bodies themselves.

Additional Lex comment on Manweb on Page 20

Apple finance chief resigns after boardroom dispute

Continued from Page 1

resolved, company officials acknowledge.

Apple's board issued a statement yesterday reaffirming its "full support" for Mr Spindler.

Apple said that Mr Graziano has resigned as a director, effective immediately, and will leave the company by year end.

Mr Graziano stressed that the parting was "amicable".

"This was not a palace coup," said Apple, refuting reports that Mr Graziano was attempting to oust Mr Spindler.

Mr Graziano's departure is a

blow for Apple. As chief financial officer he has played a central role in Apple's restructuring over the past two years.

Mr Graziano first joined Apple in 1981, and served as chief financial officer until 1985.

During that time, the company's annual revenues grew from

\$300m to \$3bn. After a two-year sabbatical, followed by two years as chief financial officer at Sun Microsystems, he rejoined Apple in 1989.

Wall Street reacted calmly to the news. Apple's share price was off \$1 to trade at \$36 in mid session yesterday.

FT WEATHER GUIDE

Europe today

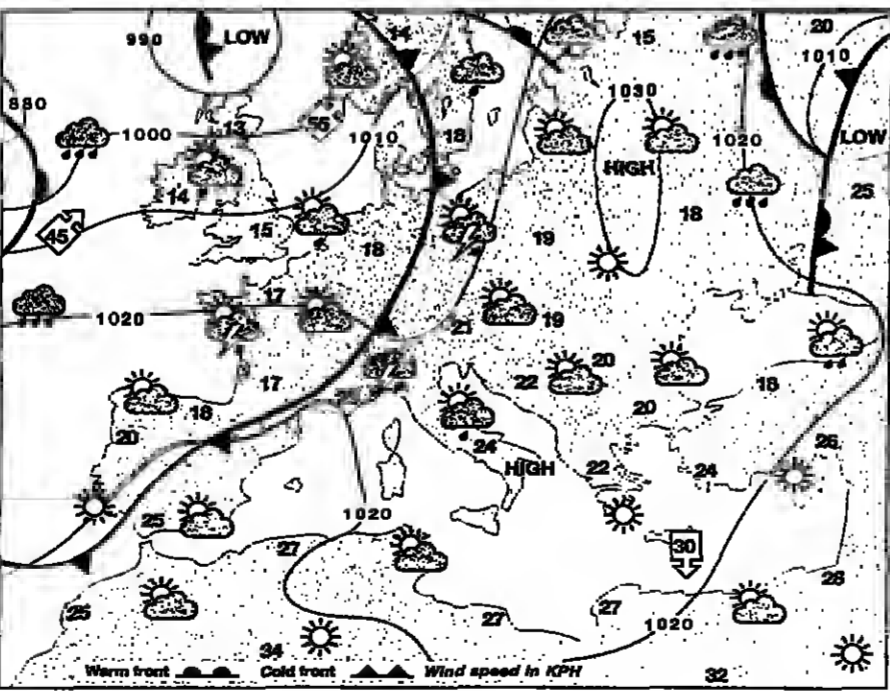
The circulation around a high pressure area over eastern Europe will draw warmer air into the eastern half of the continent on southerly winds. In the west, air, sunny spells are expected and temperatures will rise above seasonal values. Meanwhile, colder air will sweep into western Europe. Consequently, showers, occasionally accompanied by thunder and hail, will erupt over the northern UK and north-western France. France will see scattered cloud and the Iberian peninsula will have sunny periods. On the boundary between the warmer air to the east and colder air in the west, cloud will dominate and some rain or thunder showers will develop from central Norway into south-western Sweden. Germany, the Alps and across eastern and south-eastern France and north-eastern Spain.

Five-day forecast

High pressure over eastern Europe will build to the west. As a result, conditions over the continent will become more settled with sunny spells during the day. At night, some foggy patches will persist, though rain showers will be absent. Due to the extensive nature of the high, depressions will stay over the Atlantic and changeable conditions will only occur over the UK and Scandinavia.

TODAY'S TEMPERATURES

Location	Max	Min
London	15	10
Paris	14	9
Rome	16	11
Madrid	18	13
Amsterdam	12	7
Berlin	11	6
Stockholm	10	5
Helsinki	9	4
Oslo	8	3
Reykjavik	7	2
Edinburgh	11	6
Glasgow	10	5
Belfast	11	6
Cardiff	12	7
Birmingham	13	8
Manchester	14	9
Liverpool	13	8
Nottingham	14	9
Leeds	13	8
Sheffield	12	7
Blackburn	13	8
Oldham	12	7
Wigan	13	8
St Helens	12	7
Southport	13	8
Liverpool	12	7
Merseyside	13	8
Cheshire	14	9
Derbyshire	15	10
Nottinghamshire	16	11
Lincolnshire	17	12
Leicestershire	18	13
Northamptonshire	19	14
Bedfordshire	20	15
Hertfordshire	21	16
Essex	22	17
Suffolk	23	18
Sussex	24	19
West Sussex	25	20
East Sussex	26	21
Kent	27	22
East Kent	28	23
South Kent	29	24
North Kent	30	25
West Kent	31	26
East Kent	32	27
South Kent	33	28
North Kent	34	29
West Kent	35	30
East Kent	36	31
South Kent	37	32
North Kent	38	33
West Kent	39	34
East Kent	40	35



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Location	Max	Min
London	15	10
Paris	14	9
Rome	16	11
Madrid	18	13
Amsterdam	12	7
Berlin	11	6
Stockholm	10	5
Helsinki	9	4
Oslo	8	3
Reykjavik	7	2
Edinburgh	11	6
Glasgow	10	5
Belfast	11	6
Cardiff	12	7
Birmingham	13	8
Manchester	14	9
Liverpool	13	8
Nottingham	14	9
Leeds	13	8
Sheffield	12	7
Blackburn	13	8
Oldham	12	7
Wigan	13	8
St Helens	12	7
Southport	13	8
Liverpool	12	7
Merseyside	13	8
Cheshire	14	9
Derbyshire	15	10
Nottinghamshire	16	11
Lincolnshire	17	12
Leicestershire	18	13
Northamptonshire	19	14
Bedfordshire	20	15
Hertfordshire	21	16
Essex	22	17
Suffolk	23	18
Sussex	24	19
West Sussex	25	20
East Sussex	26	21
Kent	27	22
East Kent	28	23
South Kent	29	24
North Kent	30	25
West Kent	31	26
East Kent	32	27
South Kent	33	28
North Kent	34	29
West Kent	35	30
East Kent	36	31
South Kent	37	32
North Kent	38	33
West Kent	39	34
East Kent	40	35

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JPMorgan

September 1995

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مكتبة النور

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
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Thursday October 5 1995

Sound Budget, sound politics

Mr Kenneth Clarke has never made any secret of his lack of interest in the reform of the tax structure. His successes so far have stemmed more from a readiness to look at a deficit in the eye and administer politically audacious remedies. This is not a talent to be despised in a chancellor. Yet improvements in the overall fiscal stance have been won at the cost of more distortions in the system. This is notably true in the area that matters most for growth: the taxation of savings and investment.

Among the chief priorities here should be an attempt to restore neutrality between different types of saving, so that resources flow naturally towards the highest pre-tax returns. With a general election looming, the temptation in November's Budget will be to direct them instead to areas of maximum political advantage. Yet the two objectives are not necessarily incompatible. There are courses open to Mr Clarke that would allow him to argue that in micro as well as macro matters, good politics are good economics.

This trick will be least easy to achieve in housing, where the demand for a quick fix is not far short of overwhelming. Yet there are no obvious fiscal wheezes that would produce a sustained increase in house prices at other than prohibitive cost. Nor would they be desirable anyway. The privileged tax status of housing, which attracts mortgage relief, exemption from capital gains and the absence of tax on the imputed income from owner-occupation, has fostered the great British illusion that wealth can be created by trading in property, instead of producing goods and services. The resulting high level of home ownership, along with the accompanying decline in the private rented sector, has also hindered labour mobility. If there is to be help for the housing market, it should be no more than a by-product of any reduction in the standard rate of income tax.

Enriching bonus

Another temptation that the chancellor should continue to resist is a revenue-maximising raid on the pension funds. In a period when they are dealing with new minimum funding requirements, potentially lower returns on investment and a reduced tax credit on dividend income, it would make more sense to relax excessively tight Inland Revenue rules on the accumulation of surpluses than to reduce the tax credit further.

In any event, a reduced tax credit would increase companies' pension bills by eroding solvency – a point that Mr Norman Lamont disingenuously failed to make when he dressed up the last raid as a cash enriching bonus for

industry. Such changes do nothing for employment. A repeat performance would also amount to harsh treatment for business, which is already increasing its contribution to the exchequer through corporation tax from £14.9bn in 1993-94 to a forecast £26.4bn, or 26 per cent of the total tax take, in 1995-96.

The greatest opportunities for the chancellor lie in the area of capital taxation, where the yield from capital gains tax and inheritance tax, at less than 3% per cent of total tax revenue, is so low that it is possible to achieve politically worthwhile change at minimal cost. By now the flat-rate 40 per cent inheritance tax is a largely voluntary, and exceptionally arbitrary, impost that falls only marginally on the genuinely rich. Ironically, one result of the tax privileged treatment of housing is that the biggest victims of inheritance tax are those whose only significant asset is a high-value home. Any loss of revenue from an increase in the £184,000 threshold could be financed by very low rates of tax on the recipients of lifetime gifts.

Constructive change

With capital gains tax, meantime, there is plenty of room for constructive change. At 40 per cent, the rate is one of the highest in the world, which bears very heavily on entrepreneurship. It also distorts investment decisions by creating a locking-in effect. The high rate has increasingly been offset by devices such as Mr Clarke's enterprise investment schemes and venture capital trusts. Yet experience suggests that such vehicles may succeed only in directing resources to sub-optimal investments.

Reductions in the capital gains tax rate according to the length of time for which assets are held would make more sense. It would reduce the bias in favour of tax-exempt institutional investment, while softening the locking-in penalty. Admittedly the advantage of having capital gains at the same level as the top rate of income tax would be lost, creating a renewed incentive to take investment returns in the form of capital gains. Yet this disadvantage would be outweighed by the boost to entrepreneurial business. The best solution anyway lies in an expenditure tax, which makes the distinction between capital and revenue irrelevant.

A final option, not without political attraction, would be to recognise that bank and building society deposits are the Cinderellas of the fiscal system. The logic of combining Peps and Tessas in a single scheme and extending it to all investments at a lower ceiling than the current £9,000 for Peps would help less well-off savers while enhancing neutrality.

Economics as futurology

Economists have plenty to say about the forces behind the economic headlines, but rarely can they accurately predict the news in advance. Time and again, the world asks them to gaze into their crystal balls and, time and again, they oblige, with ever-more precise, but mistaken, estimates of future events.

The continued demand for economic forecasts, for all their well-known failings, is easy to understand. Most people prefer a flawed picture of the future to a blank canvas. By the same token, one does not need a heavy schooling in economics to understand why there should be a supply of forecasts to meet this demand. What is more difficult to understand is the profession's apparent determination, not merely to provide forecasts, but to allow itself to be judged by them.

Professor John Kay of the London Business School outlined the failings of traditional economic forecasts in his article in last Friday's FT. As he noted, economic forecasts have a consistent tendency to cluster around a "safe" guess that next year's inflation, say, will lie somewhere between today's rate and its longer term average. As a result, most of the time, especially when the economy is at a turning point in the cycle or, more difficult still, structural economic changes are afoot.

Historic shift

Forecasters have rushed to defend their art against such slander. But not all should be insulted by Prof Kay's remarks: it all depends on what the forecasts are supposed to achieve. Private economists, like investors, need to weigh the risks of inaccuracy against the rewards of being right. Often, it may be more important

to avoid disaster than to win "Golden Guru" awards. The "safe" forecast, though rarely spot-on, is less likely to be wildly off than a prediction based on the heroic assumption that a historic shift in behaviour is about to occur.

Academic economists, however, have no such excuse for running with the pack. They can afford to take risks in pursuit of an interesting analysis of the economics behind the growth and inflation rates. Once every few years, a dogged desire to be different pays off. But even the hopelessly wrong forecasts will often contain more economic insights than the consensus estimates.

Persistent revisions

Purists would argue that institutions such as the International Monetary Fund and the OECD should get out of the forecasting business altogether. Certainly, the persistent revisions to the IMF's numbers do little for its reputation.

In the World Economic Outlook, published yesterday, the organisation has revised its growth for the seven leading industrial countries, expecting them to achieve only 2.4 per cent growth this year. In April, the same economists expected these economies to expand by 3 per cent, while only 12 months ago they expected a hearty 3.6 per cent rise.

At the very least, the fund and others seeking recognition as economists rather than astrologists should abandon single forecasts in favour of a range of "scenarios". These allow one to take a more thoughtful approach, while reducing the risk of getting it wrong. But the media and others would then have to stop asking on a "bottom-line" guess to fill the headlines: something we all show little sign of doing.

A business leader must always be willing to shake things up, says Mr François Michelin, head of the French tyre giant. "You cannot let people become set in their ways," he declares.

Such a view might seem surprising from the softly-spoken Mr Michelin, who has managed the secretive company for the past 40 years with a discreet, retiring manner. But the strategy of bold expansion and innovation he has pursued in pushing Michelin from its provincial French roots to the top of the world tyre industry points to a mould-breaking streak.

It is one of the qualities, he says, that he finds in Edouard, his fourth son and designated successor to the tyre empire. Having returned in 1983 from a two-year stint in charge of the company's US operations, Edouard is playing an increasingly prominent role, sitting alongside his father at the company controls and in a rare interview at the Clermont-Ferrand headquarters.

The double act, and moves towards Edouard's eventual succession, mark a crucial period in the unusual history of Michelin, a family enterprise which has grown into one of the country's largest industrial groups. After emerging from a financial crisis at the beginning of the 1980s, the partnership will determine whether Michelin can manage a smooth transition and fend off resurgent competition from Goodyear of the US, Bridgestone of Japan and emerging pretenders from east Asia.

The Michelin chief expresses few concerns on the management score. "If Edouard was not right, then we would have looked elsewhere... if he was not the boss here, he would be at another company," says François. "He has 32 years of experience at Michelin," he jokes, referring to Edouard's age, less than half his 69 years.

The once-closeted Michelins have opened up somewhat over the past few years. But they remain guarded about the division of responsibility. "It is something between father and son," says Edouard. "As my father says, if you ask a centipede how it walks, it will get a headache," he adds. François describes a system of collaboration, aided by Mr René Zingraff, the third managing partner. This arrangement is due to last until François' official retirement date in 1999, with a possible two-year extension.

If the family ties seem solid, the Michelin men also confront their challenges from a position of renewed business strength. Last month's announcement that net profits had trebled to FF1.43bn (\$291m) in the first half of 1995 confirmed Michelin's recovery from the heavy losses which pushed it into grave financial difficulties.

"We were accelerating down the fast lane when he hit a traffic jam," says François, referring to a phase of aggressive expansion which brought new factories at the rate of one every nine months between 1960 and 1990 and which culminated in the acquisition of Uniroyal Goodrich of the US in 1989. The deal fulfilled Mr Michelin's long-term objectives, making his company the biggest in the tyre industry, with almost 20 per cent of the market. But it burdened Michelin with

Few cities are identified as closely with a company as Clermont-Ferrand is with Michelin. For the postwar period, and for many years before, the tyre manufacturer has been the biggest employer in the provincial centre and its Avenue surroundings in the heart of France.

Michelin's trademarks are abundant. Boulevard Edouard Michelin, named after the company's co-founder, runs close to the faded facades of the multinational's original 19th century site. Scattered around the town are bars with names such as Les Bils – the nickname given to company workers which refers to Bihendum, the roly-poly Michelin mascot.

In recent years, however, the relationship between the town and the tyre giant has been trans-

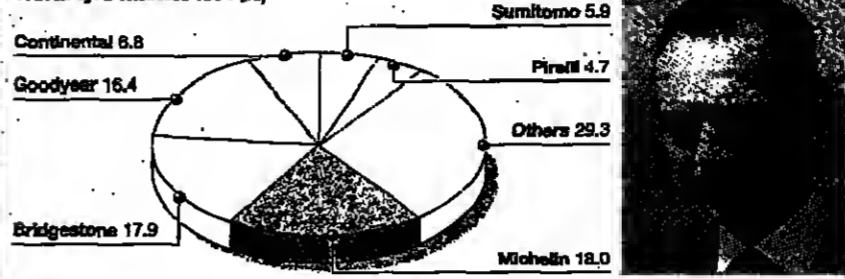
Michelin men make their mark

John Ridding and Andrew Gowers examine the French tyre group's attempt to become an all-terrain production vehicle

Michelin: back on track

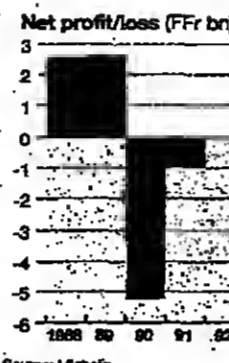


World tyre market 1994 (%)

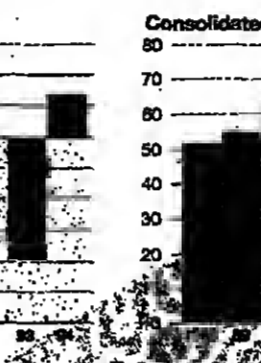


François Michelin

Edouard Michelin



Source: Michelin



debts and a tough restructuring task just as recession hit.

Mr Michelin says that the process of reorganising the Uniroyal and Goodrich plants is complete and that the US operations will bring a profit in 1995. His bankers say that restructuring programmes, which have cut the workforce from 140,000 in 1990 to 117,000, are evidence that Michelin now pays as much attention to the bottom line as it has traditionally given to innovation.

This innovative bent prompted early experiments in leather and nail-studded tyres and the invention of the radial in the 1940s, with detours into restaurant guides and road signs. François explains that the maps and the signposts were necessary to get people on to the roads. But he talks more about the need to maximise the efficiency of production.

"There is now a much tighter focus on returns," says Mr Hervé de Carmoy, chairman of BIMP, one of Michelin's bankers. Other analysts agree, predicting a strong increase in full-year profits and a

robust performance in 1996.

New challenges, however, have rapidly followed recovery. Price increases, pushed through to offset a rise in raw material costs, have prompted an antitrust probe into the tyre industry by the US Justice Department. Car manufacturers, confronted by stagnant European sales and a peaking US market, are maintaining pressure on margins.

More fundamental challenges are posed by shifts in the world tyre industry. "One big issue is how Michelin, a premium brand company, copes with the trend towards lower-cost tyres," says Mr Chris Moore, a Morgan Stanley analyst. Other challenges include the search for new sources of growth.

The Michelin's response ranges from expansion in rapidly growing regions, notably east Asia, where they are seeking partners, to making economies in mature markets. Further measures include the development of new technologies and a reorganisation of how they make and sell their tyres.

François, who accepts profits are

still inadequate, claims cost-cutting remains central to the company's plans. "We must be an all-terrain vehicle which is not dependent on interest rates and economic cycles," says Edouard, referring to the need to cut net debts of FF21.4bn.

These objectives are to be achieved partly through continued productivity measures and a reorganisation of European plants into specialised factories to achieve economies of scale. Michelin's Classic brand of tyres for passenger cars, for example, is now produced at just two plants, in Dunlop in Scotland and Bourges in France. The reorganisation should be finished by the end of next year.

In line with its technological traditions, Michelin is also aiming for efficiency gains through its latest and most mysterious innovation – the CSM, an automated manufacturing unit which can switch between different tyres.

The mention of CSM brings a glint to the father's eye. Like much about Michelin, the system has been shrouded in secrecy. But Fran-

çois compares its potential industrial impact to that of the float glass process which revolutionised glass manufacturing following its introduction by Pilkington of the UK in 1969. He claims that "each machine is a factory" and that a machine could fit in the 26th or 15th room in which he is dining provide some support to his assertion.

One CSM unit is already operational at Clermont-Ferrand. Others will be introduced to satisfy new market niches, rather than to increase capacity. By allowing increased flexibility in production, it will help Michelin respond to the increased diversity of customer demand, a trend which has also prompted the launch of the Classic, Pilot and Energy ranges. Car manufacturers also cite increased responsiveness from Michelin, which has managed to shed its reputation for arrogance.

H owever, market pressures to increase the speed of product development and cut costs have posed problems at Michelin, where information has traditionally been rationed on a need-to-know basis. But this is changing. One US engineer among the 2,300 R&D staff at Clermont-Ferrand describes a shift towards teams in which staff from different departments co-operate in designing products.

Edouard appears to have pushed for such organisational reform, allowing him to make his mark on the company since his return from the US. François is behind the moves. "Different stages of a company's life require different solutions," he says.

But there are limits to change. Although the company has grown from one workshop to 67 plants, the peculiar legal structure of the company, which is known as a *société en commandite par actions* and which maintains family control of the capital, seems set to continue. "Would you fly in a plane guided by remote control?" asks Mr Michelin, arguing that the unlimited liability of the commandite, or managing partners, ensures committed management and enables quick action.

Many in the financial community bridle at Michelin's structure and the lack of shareholder control. But they accept it has allowed the pursuit of long-term strategies. The French group obtained an enduring lead in the production of radials, partly because foreign rivals balked at the investments needed to produce the new tyres.

The Green tyre, which cuts fuel consumption through reduced friction with the road, is a recent example. The expensive 20-year development process prompted opposition from within Michelin, and the 1991 launch required forceful intervention by François. "The role of the boss is to stand outside the company structure and make those decisions," he says.

So far those decisions have proved right. If sometimes risky, "It has been a rough ride, but they have a strong position in markets and technology," says one of their main customers. "The Michelins don't have much to worry about, not in the short term." But then the short term was never the greatest concern at Clermont-Ferrand.

A roly-poly relationship

Michelin's financial crisis at the beginning of the 1980s prompted a series of job cuts which came as a severe blow to the community. The Clermont-Ferrand payroll fell from 39,000 in 1980 to just under 16,000 today. Before the cuts, the company had already withdrawn from the provision of clinics, schools and other social centres.

With the revival in Michelin's fortunes, employment levels have stabilised. But the upheavals have left their mark. "You can no longer call us Michelinville," says Mr Roger Quilliot, the Socialist mayor who has run the city for the past 20 years. "The relation-

ship is now more normal." For Mr Quilliot this is a good thing. "There are always risks when one company dominates the economy. For the past 10 years my main task has been to offset the decline in employment at Michelin and diversify our business base."

In this, he claims success. "We have created more than 12,000 jobs, many in the service sector."

Attitudes towards the company have also changed. "There was anger and disillusion when the cuts came," says the bartender in a town centre café. "Michelin used to be God and the devil," says Mr Quilliot. "It was regarded with

pride and hostility, in both cases because of its influence. Now people regard Michelin as a company like any other."

Not quite like any other, for Clermont-Ferrand at least. The adjustment of the relationship has been a reappraisal rather than a rupture. Michelin continues to provide a quarter of the city's private sector jobs. Although its social role has been much reduced, and the discreet Michelin family has kept out of local politics, the company continues to support the community. ASM, the local sports club, remains as a vestige of Michelinville.

More fundamental are the ties of

character between the city and its famous family. "François is a product of the region," says Mr Alain Etchepoyen, the philosopher and occasional consultant for the Michelin chief. Others refer to the austere traditions of the Auvergne region, reflected in the Jansenist religious movement which flourished there, and matched by the Michelin's style.

"They are absolutely representative of the Auvergne temperament," says Mr Quilliot. "People here do not seek luxury and the Michelins are not the kind to hold grand receptions." Like the volcanic hills which surround the city, the family blends into the scenery which it has helped to shape.

John Ridding

OBSERVER

Bankers we've trusted

Oh to have been a fly on the wall when Procter & Gamble's audit committee met on April 12 last year.

The subject of discussion: how the company came to lose millions of dollars on derivatives it bought from Bankers Trust. Appearing to explain the problem: Erik Nelson, then (and still) the company's chief financial officer.

Highlights of Nelson's comments, made available in evidence unsealed by the court this week, catch the flavour of his presentation.

"We didn't test any 'worst case' scenarios to see what would happen if interest rates took off on us..."

"We were betting that the financial markets wouldn't move against us. This, too, ran contrary to our policy of knowing our risk up front at the time we enter into a swap..."

"In hindsight, the lessons are obvious, but at the time our judgment was clouded by the belief that rates wouldn't rise quickly and that we understood the pricing formula when in fact we didn't..."

"Several weeks went by when we were operating with the hope that the problem would go away..."

"I can tell you that those involved feel every bit as badly as I do. We have all learned a lesson."

Nelson concludes his comments:

"I can personally assure you that the situation I've just described will never happen again. May I answer any questions?"

Seeing red

Robin Cook, Labour's foreign affairs spokesman, has managed to make a few enemies in the City this week. Talking about the single currency and its possible impact on employment, he let slip at the party conference on Tuesday that he was "not worried about the jobs of men in red braces speculating against the pound".

Now, traders are vain souls, who dislike having the size of their contribution to the balance of payments cast in doubt by a hirsute politician. But what they really resent is being muddled up with bond dealers. Memo to Robin: it's the gentlemen who prefer bonds who sport the red braces – while the fat boys like to be known for the whiteness of their socks.

French connection

What is going on at Paribas Capital Markets (PCM) in London? Patrick Stevenson, 50, the architect of PCM and a 26-year veteran of the bank, has been made chairman of Paribas Europe and senior adviser to Banque Paribas executive committee.

Stevenson, who despite his name is French, has been running PCM

since its inception in 1984 and has established it as the most prominent of the French houses in London. But despite his impressive new title Paribas watchers sense that that he has been less-impinged by Lucman Arnold, 45, a protégé of the erstwhile Euromarket superstar Hans-Jörg Rudloff, who arrived from CSFB in 1993 as global head of investment banking.

The formidable Arnold, who (despite his name) is British, and who was previously reporting to Stevenson, now moves to the Paris headquarters as head of business development. Despite the dubious sounding title, it is a very serious job indeed and – the French indicate – a pretty surprising one for a mere Brit. Obviously a man to keep tabs on.

Ducking out

What do senior French politicians do when they tire of reading criticism about themselves in the press? They launch a boycott, *naturellement*.

President Mitterrand led the way by terminating his subscription to Le Monde, which had been addressing the subject of corruption in his administration.

Now Alain Juppé, the prime minister, has followed suit, ordering all those under his command to stop buying *Canard Enchaîné*. The weekly satirical paper has been publishing a series of allegations of misuse of power by Juppé –

including his demand for a 10 per cent reduction in rent on his son's apartment.

But the Canard has struck back. To ensure that the prime minister can remain up to date with its revelations, it has offered him three months worth of newspapers *gratis*, discreetly sent to his home address. It promises that a simple word from him will suffice to trigger a subscription for his son as well, at a 10 per cent discount.

Open and shut case

How's this for an excuse for a night in jail? John Sutton, body guard of Dr Richard Leakey, the white Kenyan anthropologist with political aspirations, was arrested earlier this week while attending the trial of an opponent of Kenya's President Daniel Arap Moi. His house was searched, diary rifled, documents confiscated, and car seized. Nothing.

Then a smart young copper spotted the incriminating evidence. Sutton was charged with "possessing a penknife without a permit".

Name recognition

A man carrying a pole enters the Olympic arena, but is stopped by the guards. "Are you a pole vaulter?" queries one of the officers. "No German," but how did you know my first name?

Financial Times

100 years ago

The French budget deficit Paris: According to the "Figaro", the Government, in order to meet the expenses of the Madagascar Expedition, has sold out stock on the Depots and Consignations Fund to the amount of 20,000,000 Francs and this is the reason why the 3 per cent Rentes have recently dropped, despite the absence of any particularly disturbing features in the political situation. The "Figaro" characterises this as a fraud on the State and a sure means, if persisted in, of bringing about national bankruptcy.

50 years ago

Paris bid for arbitrage Paris: Although arbitrage operations are not yet possible here owing to exchange regulations, the Bourse syndicate have already contacted financial authorities with a view to renewing such operations. The syndicate has put forward a plan for the resumption of arbitrage on the understanding that movements of capital are not involved. This would mean, as in New York, that sales and purchases must correspond in value.